

19 July 2018 at 7.00 pm

Conference Room, Argyle Road, Sevenoaks
Despatched: 11.07.18



Audit Committee

Membership:

Chairman, Cllr. Grint; Vice-Chairman, Cllr. Reay
Cllrs. Ball, Clack, Layland, McArthur, Purves, Searles and Williamson

Agenda

There are no fire drills planned. If the fire alarm is activated, which is a continuous siren with a flashing red light, please leave the building immediately, following the fire exit signs.

	Pages	Contact
Apologies for Absence		
1. Minutes To agree the Minutes of the meeting of the Audit Committee held on 17 April 2018, as a correct record.	(Pages 1 - 4)	
2. Declarations of Interest Any declarations of interest not already registered.		
3. Actions from Previous Meeting	(Pages 5 - 6)	
4. Responses of the Council, Cabinet or Council Committees to the Committee's reports or recommendations (if any)		
5. Audit Committee Terms of Reference	(Pages 7 - 14)	Adrian Rowbotham Tel: 01732 227153
6. Statement of Accounts 2017/18	(Pages 15 - 158)	Alan Mitchell Tel: 01732227483
7. Counter Fraud and Compliance Report 2017/18	(Pages 159 - 164)	Glen Moore Tel: 01322343240
8. Annual Self-Assessment Review of the Effectiveness of the Internal Audit Service 2017/18	(Pages 165 - 174)	Adrian Rowbotham Tel: 01732 227153
9. Internal Audit Annual Report 2017/18	(Pages 175 - 194)	Adrian Rowbotham Tel: 01732 227153

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|---|-------------------|---------------------------------------|
| 10. Report on Internal Audit Recommendations Outstanding | (Pages 195 - 198) | Adrian Rowbotham
Tel: 01732 227153 |
| 11. External Review of Internal Audit - Update | (Pages 199 - 226) | Adrian Rowbotham
Tel: 01732 227153 |
| 12. Review of the Effectiveness of the Audit Committee 2017/18 | (Pages 227 - 236) | Adrian Rowbotham
Tel: 01732 227153 |
| 13. Workplan | (Pages 237 - 238) | |

EXEMPT INFORMATION

At the time of preparing this agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public.

If you wish to obtain further factual information on any of the agenda items listed above, please contact the named officer prior to the day of the meeting.

Should you need this agenda or any of the reports in a different format, or have any other queries concerning this agenda or the meeting please contact Democratic Services on 01732 227000 or democratic.services@sevenoaks.gov.uk.

AUDIT COMMITTEE

Minutes of the meeting held on 17 April 2018 commencing at 7.00 pm

Present: Cllr. Grint (Chairman)

Cllr. Reay (Vice Chairman)

Cllrs. Ball, Clack, Halford, McArthur, Purves, and Searles

Cllr. Scholey was also present.

36. Minutes

Resolved: That the minutes of the meeting of the Audit Committee held on 9 January 2018 be agreed and signed as a correct record.

37. Declarations of Interest

No additional declarations of interest were made.

38. Actions from Previous Meeting

There were none.

39. Responses of the Council, Cabinet or Council Committees to the Committee's reports or recommendations

There were none.

40. External Audit - Annual Audit Plan

The Chairman welcomed Sebastian Evans from Grant Thornton who presented the External Audit Plan for the year ending 31 March 2018. He advised that the significant risks considered included fraudulent transactions in the revenue cycle and management override of controls, which were both presumed risks and non-specific to Sevenoaks. No significant risks had been identified so far.

In response to questions, Members were advised that the new statutory deadline for publishing the accounts by 31 July had placed additional pressures on all involved but there would be no reduction in the quality of accounts and Sebastian Evans and Alan Mitchell were confident the new deadline would be met.

Resolved: That the report be noted.

CHANGE IN ORDER OF AGENDA ITEMS

With the agreement of the Committee, the Chairman took agenda item 9 before agenda item 6.

41. Statement of Accounts 2017/18 - setting up a Member Working Group

The Head of Finance presented a report for the Statement of Accounts 2017/18 which was to be prepared by 31 May and then approved by members by 31 July. The Chairman suggested that a small working group be established to review the draft during June and sought volunteers. If approved Officers would arrange the first meeting date.

Resolved: That

- a) That a Member Working group be set up to review the 2017/18 draft Statement of Accounts
- b) Membership of the working group to be Councillors Searles (Chairman), Cllr. Grint, Cllr. Reay, Cllr. Halford, Cllr McArthur, with the Portfolio Holder for Finance also invited to attend.

42. Internal Audit 2017/18 3rd Progress report

The Acting Audit, Risk and Anti-Fraud Manager presented the report which set out the progress made by the Internal Audit Team in delivering the Annual Internal Audit Plan 2017/18 and outcomes of final Internal Audit reports issued since the meeting of the committee in January 2018.

It was confirmed that there had been no change in the resourcing of the Internal Audit Team since the last committee meeting. An update on staffing would be provided at the next meeting.

Resolved: That the contents of the report and the progress made by the Internal Audit Team in delivering the 2017/18 Annual Internal Audit Plan, be noted.

43. Report on Internal Audit Recommendations Outstanding

The Acting Audit, Risk and Anti-Fraud Manager presented the report which updated members on progress of the implementation of Internal Audit Recommendations agreed with management, and to report on outstanding recommendations due for implementation by 31 January 2018. Members were pleased that for the second

time this year, there were no recommendations with a risk ranking medium or high that remained outstanding.

Resolved: That there were no recommendations outstanding that had not been implemented by the agreed completion date.

44. Annual Governance Statement 2017/18

The Chief Finance Officer presented the report. The Annual Governance Statement (AGS) was a corporate document that explained the Council's governance arrangements and the controls it employs to manage the risk of failure to achieve strategic objectives. It was owned by all Senior Officers and Members of the Council.

The process confirmed that the Council has sound systems of internal control and good governance arrangements in place. No significant governance issues had been raised through the AGS process.

Resolved: That the Annual Governance Statement 2017/18, which accompanied the Council's Accounts be agreed for signature by the Leader of the Council.

45. Internal Audit Plan 2018/19

The Acting Audit, Risk and Anti-Fraud Manager presented the report which incorporated the Annual Internal Audit Plan and Programmed Reviews for 2018/19. The objective of the plan was to ensure that Internal Audit resources were deployed in order to add value to the Council's objectives, whilst delivering reasonable assurance to the Council, regarding the effectiveness of internal control governance and risk management processes.

Members discussed the Community Infrastructure Levy (CIL) and when it should be reviewed by the Audit Committee.

Action: for the acting Audit, Risk and Anti-Fraud Manager to circulate the Internal Audit Plan to all members.

Resolved: That the draft Internal Audit Plan for 2018/19 be approved.

46. Annual Report to Council

The Committee considered the Chairman's annual report for submission to the Council meeting on 15 April 2018.

Resolved: That the report be commended to Council.

47. Work Plan

Members were advised of the following additions to The Work Plan
08/01/2019 - External Audit - Annual Audit Letter 2017/18
External Audit - Housing Benefit Subsidy 2017/18
Internal Audit 2018/19 - 2nd Progress report
A report on Internal Audit Recommendations Outstanding.

A potential addition of Income Strip Funding - Risk Assessment was also noted.

THE MEETING WAS CONCLUDED AT 7.57 PM

CHAIRMAN

ACTIONS FROM THE MEETING HELD ON 17.04.2018

Action	Description	Status and last updated	Contact Officer
ACTION 1	The Acting Audit, Risk & Anti-Fraud Manager to circulate the Internal Audit Plan to all members.	Internal Audit Plan was circulated to members by the democratic services team on 19 th April 2018	Lisa Nyon Ext. 7053

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AUDIT COMMITTEE TERMS OF REFERENCE

Audit Committee - 19 July 2018

Report of Chief Finance Officer

Status For Information

Key Decision No

Portfolio Holder Cllr. John Scholey

Contact Officer Adrian Rowbotham, Ext. 7153

Recommendation to Audit Committee:

That the Audit Committee terms of reference be noted

Introduction and Background

- 1 At the Annual Council meeting on 15 May 2018, Members agreed the attached terms of reference for the Audit Committee.
- 2 This is the first Audit Committee since Annual Council and therefore gives the Committee an opportunity to ensure that the terms of reference are covered in the work plan.

Key Implications

Financial

None.

Legal Implications and Risk Assessment Statement.

None.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

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Appendices

Appendix A - Audit Committee Terms of Reference

Background Papers

None

Adrian Rowbotham

Chief Finance Officer

PART 6 - AUDIT COMMITTEE

1. Introduction

- 1.1 The Council will appoint the Audit Committee to discharge the functions conferred by the Accounts and Audit Regulations 2015 in relation to the matters set out below and specifically to consider the Council's Financial and Governance arrangements, relating to the system of internal control and the effectiveness of internal audit, the annual governance statement; including the arrangements for the management of business risks, in compliance with Regulations 3 and 6 of the Accounts and Audit Regulations 2015 and any subsequent legislation.
- 1.2 The number of meetings and Terms of Reference of the Audit Committee may be reviewed from time to time by the Governance Committee which may report to the Council.

2. Membership of the Committee

- 2.1 All Members of the Council, except members of the Cabinet or their deputies and the Chairman of the Council, may be members of the Audit Committee. However, no Member may be involved in reviewing a decision in which he/she has been directly involved.
- 2.2 The Committee will be made up of 9 elected Members, one of which shall serve as Chairman, that follow the political proportionality of the Council. The Chairman will not be a member of any Cabinet Advisory Committee. The membership of the Committee can be found at Appendix H - Membership of Council Committees, Cabinet and Advisory Committees.
- 2.3 The Audit Committee shall be entitled to recommend to Council the appointment of up to two additional co-opted non-voting members. Any co-opted members must have the necessary technical knowledge and skills to be of value to the business of the Committee.

3. Terms of Reference of the Audit Committee

Audit Activity

- (a) To review, in collaboration with the Audit, Risk and Anti-Fraud Manager, the Internal Audit Charter on an annual basis and to consider and approve any further development of the Council's Internal Audit Charter, Strategy or terms of reference such as shall be appropriate.
- (b) To consider and approve the annual internal audit plan, including a summary of internal audit activity regarding the level of assurance that it can give over the Council's internal control, corporate

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governance and risk management arrangements. Further, to commission work as required from both Internal and External Audit.

- (c) To consider the Audit, Risk and Anti-Fraud Manager's annual report and assurance opinion.
- (d) To consider quarterly progress reports from the Audit, Risk and Anti-Fraud Manager regarding the progress of the Annual Internal Plan. The Committee may request to review any individual audit report should they or the Audit, Risk and Anti-Fraud Manager deem it appropriate to do so.
- (e) To consider a report on the progress of all recommendations made by internal audit and other external regulatory or review agencies.
- (f) To receive and consider the annual report on the review of the effectiveness of the internal audit function.
- (g) To consider confidential reports on investigations carried out by Internal Audit of suspected fraud; corruption or bribery allegations within the Council or its partners.
- (h) To make proper arrangements regarding the appointment of the Council's External Auditor; to consider the appointed External Auditor's annual letter, relevant reports, and the report to those charged with governance.
- (i) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- (j) To consider any external audit report resulting from the Statement of Accounts and any recommendations and comments received from the District Auditor.

Regulatory Framework

- (k) To maintain an overview of the effective development and operation of corporate governance and risk management in the Council, and to monitor compliance with statutory duties and the Council's Constitution in respect of Financial and Contract Procedure Rules.
- (l) To monitor Council policies on 'Raising Concerns at Work'; the anti-fraud and anti-corruption strategy; the Bribery Act; and the Council's complaints process; including the Council's whistleblowing arrangements.

- (m) To consider and approve the Council's Annual Governance Statement and recommend its adoption to Council
- (n) To monitor the Council's arrangements for corporate governance and if necessary to recommend actions to ensure compliance with best practice; and to also consider compliance with the Council's own and other published standards and controls.
- (o) To receive and consider reports from the monitoring officer on lawfulness and/or maladministration; to review any issue referred by the Chief Executive, a Chief Officer, or a Statutory Officer.
- (p) To monitor the implementation of the Members' Allowance Scheme.

Accounts

- (q) To review the annual Statement of Accounts. Specifically to consider whether appropriate accounting policies, including International Financial Reporting Standards, have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- (r) To approve the Statutory Statement of Accounts when the deadline for approval does not allow approval by full Council.
- (s) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts, and comments received from the District Auditor.

4. Audit Committee Procedure Rules

- 4.1 The Committee will conduct their proceedings in accordance with the applicable Committee protocols as specified within Section 33 of Part 2 of the Council's Constitution, and with the further Procedure Rules set out below.

Appointment of Sub-Committees/Working Groups

- 4.2 The Committee may appoint Sub-Committees or working groups. These may be appointed for a fixed period or until the next Annual Council meeting.

Procedure at Meetings of the Audit Committee

- 4.3 The Audit Committee shall consider the following business:
 - (a) minutes of the last meeting;

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- (b) declarations of interest;
- (c) responses of the Council, Cabinet or Council Committees to the Committee's reports or recommendations; and
- (d) the business otherwise set out on the agenda for the meeting.

Meetings of the Audit Committee

- 4.4 There shall be four ordinary meetings of the Committee in each year. In addition, other meetings may be called from time to time as and when appropriate. A meeting of the Committee may be called by the Chairman of the Committee, by a quarter of the members of the Committee or by the Chief Executive (in consultation with the Chairman or Vice-Chairman, if available) if he considers it necessary or appropriate.
- 4.5 The Audit Committee shall periodically set aside time during a meeting where any matters pertaining to the remit of the Committee may be discussed with the Audit, Risk and Anti-Fraud Manager without the presence of other officers of the Council. The Chairman of the Committee will also meet informally with the Audit, Risk and Anti-Fraud Manager and other relevant officers as appropriate prior to all ordinary meetings.

Work Plan

- 4.6 The Audit Committee will be responsible for setting its own Work Plan and in doing so shall take into account the wishes of all members on the Committee and in consultation with key officers of the Council.

Agenda Items

- 4.7 Any member of the Audit Committee shall be entitled to give notice to the Chief Executive that he/she wishes an item relevant to the functions of the Committee to be included on the agenda for the next available meeting of the Committee. On receipt of such a request the Chief Executive will ensure that it is included on the next available agenda and the Chairman will be informed.
- 4.8 The Audit Committee shall also respond, as soon as work plans permit, to requests from the Council and if it considers it appropriate, the Cabinet or other Committees, to review particular areas of Council activity relevant to the functions of the Committee.

Reports and Recommendations from the Audit Committee

- 4.9 Once it has formed recommendations, the Audit Committee will submit these in writing to the Chief Executive for consideration by the Cabinet, Council or the relevant Committee. Whenever possible a response to the submitted report and/or recommendations of the Committee will be formed within two months of it being submitted to the Chief Executive.

Members and Officers Attending Committee

- 4.10 In discharging its terms of reference, the Audit Committee may require any member of the Cabinet, the Chairman of a Committee, the Chief Executive, and/or any Chief Officer to attend before it to answer questions in relation to matters within their remit. For the avoidance of doubt, such a person may be required to answer questions on the Council's relationships with partner organisations, contractors and/or other public bodies, providing that person is responsible for managing that relationship as part of their duties. It is the duty of those persons to attend if so required.
- 4.11 Where any Member or Officer is required to attend the Audit Committee under this provision, the Chairman of the Committee will inform the Chief Executive. The Chief Executive shall inform the Member or Officer in writing giving at least five clear working days notice of the meeting at which he/she is required to attend. The notice will state the nature of the item on which he/she is required to attend and whether any papers are required to be produced for the Committee. Where the Committee will require the production of a report, then the Member or Officer concerned will be given sufficient notice to allow for preparation of that documentation.
- 4.12 Where the Member or Officer is unable to attend on the required date, then the Committee shall in consultation with the Member or Officer arrange an alternative date for attendance to take place as soon as practically possible.

Attendance by Others

- 4.13 In discharging its terms of reference, the Audit Committee may review the performance/governance of partner organisations, contractors and/or other public bodies. It may also invite people other than those people referred to in paragraph 4.10 to provide it with a report, address it and/or answer questions that may be appropriate to the Committee's remit.

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STATEMENT OF ACCOUNTS 2017/18 - OUTCOME OF EXTERNAL AUDIT

Audit Committee - 19 July 2018

Report of Chief Finance Officer

Status: For Decision

Key Decision: No

Executive Summary: This report sets out the external audit findings of the 2017/18 accounts.

Portfolio Holder Cllr. John Scholey

Contact Officers Adrian Rowbotham Ext. 7153
Alan Mitchell Ext. 7483

Recommendation to Audit Committee that

- a) the Statement of Accounts 2017/18 be approved.
 - b) the letter of representation (Appx B) be approved and signed by the Chairman
-

Introduction and Background

- 1 A draft statement of accounts was reviewed by a working group from the Audit Committee on 25 June 2018.
- 2 The external audit of the accounts began on 4th June and the Audit Findings Report in Appendix A sets out the findings and the changes to the accounts agreed as part of the process. The report also sets out the auditor's Value for Money (VfM) conclusion for 2017/18.
- 3 The external auditors, Sarah Ironmonger and Sebastian Evans from Grant Thornton, will attend the meeting to discuss their report on the 2017/18 audit. The accounts are required to be signed off by the end of 31st July 2018.
- 4 The Audited Statement of Accounts 2017/18 is attached as Appendix D.
- 5 A copy of the letter of representation from the Council to the external auditors is attached as Appendix B.

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- 6 The format of the statement is similar to 2016/17 and has been compiled in line with International Financial Reporting Standards (IFRS), there was no new significant reporting requirement for 2017/18.

Review by Working Group

- 7 At the meeting of the working group on 25th June, the Head of Finance explained the most important items in the statement and provided answers to detailed questions raised by Members.
- 8 Members examined the Statement of Accounts and the Narrative Statement and the report of the working group is appended to this report as Appendix C

Commentary on the Auditor's Report

Audit Findings

- 9 Grant Thornton have stated that the accounts give a true and fair view of the Council's financial position, and have been properly prepared in accordance with the Code of Practice.
- 10 No adjustments were identified that affected the Council's reported financial position and no changes were required to the major statements. The audit was completed within the proposed fee of £43,156, and Grant Thornton have reported that the quality of the draft statements presented for audit was good and free of errors.
- 11 The accounting policies, estimates and judgements have been reviewed and all the indicators are green.
- 12 The changes required to the accounts are explained below:
- a. In Note 20, Unusable reserves a mapping error in the preparation of the note meant that amounts of non-current assets written off on disposal or sale were understated and the corresponding adjustment to the revaluation reserve was overstated. This also effected another part of the note which shows the Capital Grants and Contributions credited to the Comprehensive Income and Income Statement that have been applied to capital financing. This error was isolated to this note and did not affect any of the core statements. The error was identified by SDC Finance who notified the auditors and provided the correct note for them to audit;
 - b. In Note 17, Creditors and Receipts in Advance the figures for Council Tax and Non Domestic Rates were combined into a single figure £717k (£596k PY) whereas they should have been shown separately as Council Tax £294k (£304k PY) and Non Domestic Rates £423k (£292k PY). This error was isolated to the note and did not impact on any of the core statements.

- c. Note 12, Financial Instruments incorrectly excluded £486k of Trade Payables from the 'financial liabilities' category. This error was isolated to the note and did not impact on any of the core statements.

Value for Money

- 13 Grant Thornton have issued an unqualified conclusion to our arrangements for Value for Money. They are satisfied that in all significant respects the Authority has put in place proper arrangements for securing economy efficiency and effectiveness in its use of resources for year ended 31 March 2018.
- 14 Grant Thornton consider the Councils risk management arrangements to be adequate and they have noted a good level of challenge and discussion around the level of risk assigned to the Property Investment Strategy.

Summary

- 15 We would like to express our thanks to Grant Thornton for their efforts in completing the required audit work in time for reporting to this Committee.
- 16 The Finance Team completed the 2017/18 financial statements 2 weeks before the new shorter deadline of May 2018, some 6 weeks quicker than last year.

Key Implications

Financial

There are no financial implications.

Legal Implications and Risk Assessment Statement.

Under section 151 of the Local Government Act 1972 the section 151 officer has statutory duties in relation to the financial administration and stewardship of the authority.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

Members will note that there are no material issues to be brought to the attention of the Committee and that the external auditor expects to issue an unqualified opinion on the financial statements and value for money conclusion.

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Appendices

Appendix A - Grant Thornton Audit Findings Report 2017/18

Appendix B - Letter of Representation

Appendix C - Report from the Working Group

Appendix D - Audited Statement of Accounts 2017/18

Background Papers:

None

Adrian Rowbotham
Chief Finance Officer

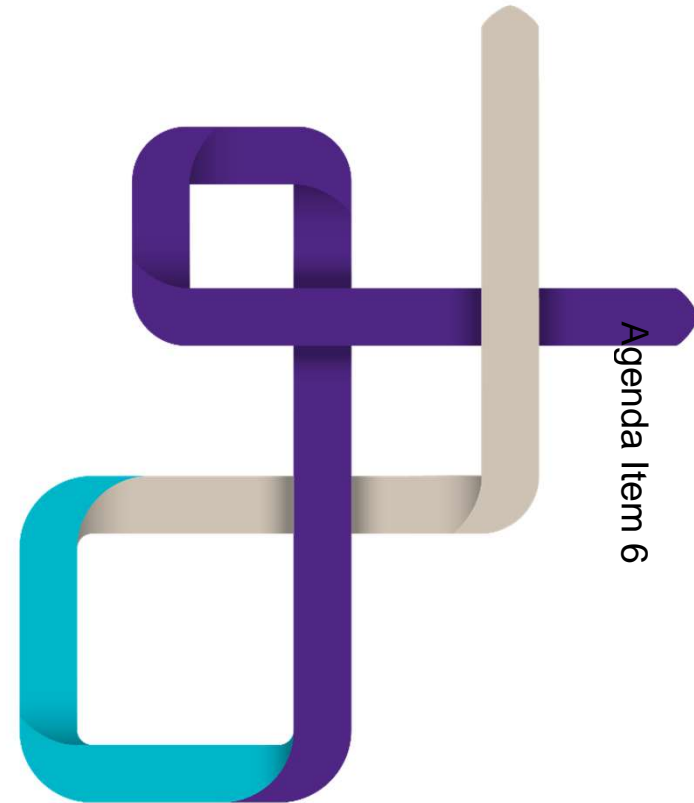
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

Audit Findings

Year ending 31 March 2018

Sevenoaks District Council
5 July 2018

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Contents



Your key Grant Thornton team members are:

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Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

Appendices

- A. Follow up of prior year recommendations
- B. Audit adjustments
- C. Fees
- D. Audit Opinion

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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Headlines

This table summarises the key issues arising from the statutory audit of Sevenoaks District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<p>Financial Statements</p>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was substantively completed on site in June. Our findings are summarised on pages 4 to 13. We have identified no adjustments to the financial statements that have an impact on the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 19 July 2018, as detailed in Appendix D. These outstanding items include:</p> <ul style="list-style-type: none"> Remaining testing areas as at 5 July (set out in 'Summary' page) receipt of signed management representation letter; and review of the final set of financial statements. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
<p>Value for Money arrangements</p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion') 	<p>We have completed our risk based review of your value for money arrangements. We have concluded that Sevenoaks Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 14 to 15.</p>
<p>Statutory duties</p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of your business and is risk based, and in particular included:

- An evaluation of your internal controls environment including your IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks;
- While we have not sought to place direct reliance on the work performed by your internal auditors, their reports and draft Head of Internal Audit opinion have been used to inform our risk assessment process.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 19 July 2018, as detailed in Appendix D. These outstanding items include:

- sample testing of housing benefit payments and review of your draft subsidy claim
- review of payroll-related accruals
- review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.
- final senior management internal quality review of testing areas completed
- receipt of signed management representation letter; and
- review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our assessment of the value of materiality has been adjusted since planning. This reflects an increase in the value of the underlying benchmark on publication of the draft statement of accounts when compared to prior year expenditure, which had been the benchmark adopted during our interim audit. We detail in the table below our assessment of materiality for Sevenoaks District Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,180,000	This is based on 2.00% of your gross revenue expenditure for the year 2017/18. This benchmark was chosen based on our knowledge of District Councils, your reporting framework and how stakeholders use your accounts.
Performance materiality	885,000	This is based on 75% of the materiality benchmark,
Trivial matters	59,000	This is based on 5% of materiality and represents the level above which uncorrected omissions or misstatements are reported to those charged with governance. Items below this are deemed to be 'trivial' for this purpose.

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management's assessment is based on the public sector interpretation of going concern as the continuation of the provision of services to support the preparation of the accounts on a going concern basis. Management has considered the Council's financial performance planning documents and cash flow expectations in considering that no material uncertainties need to be disclosed.

Work performed

We reviewed management's assessment of going concern provided to us, in conjunction with our knowledge and understanding of the Council.

We reviewed the Council's financial performance and submitted planning documents.

Concluding comments

Auditor commentary

- We agree with management's assessments on the use of the going concern basis of accounting.
- Management's processes for assessing going concern are adequate.
- The forecasts are produced and reviewed by the finance team and the Head of Finance.

Auditor commentary

- No material uncertainty has been identified.
- We have not requested any enhanced disclosures with respect to going concern.

Auditor commentary

- As we agree with management's assessment, there is no impact on our audit opinion.

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including Sevenoaks District Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Sevenoaks District Council.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

- We have performed the following work:
 - review of accounting estimates, judgements and decisions made by management
 - testing of journal entries
 - review of accounting estimates, judgements and decisions made by management
 - review of unusual significant transactions
 - review of significant related party transactions outside the normal course of business

Our audit work has not identified any issues in respect of management override of controls.

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Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

You revalue your land and buildings on an quinquennial basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work:

- Review of management's processes and assumptions for the calculation of the estimate.
- Review of the competence, expertise and objectivity of any management experts used.
- Review of the instructions issued to valuation experts and the scope of their work,
- Discussions with your valuer about the basis on which the valuation was carried out, challenging the key assumptions.
- Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.
- Testing of revaluations made during the year to check they were input correctly into your asset register
- Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.

Our audit work has not identified any issues in respect of revenue recognition.

4

Valuation of pension fund net liability

Your pension fund asset and liability as reflected in its balance sheet represents a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Auditor commentary

We have performed the following work:

- Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.
- Review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.
- Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.
- Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.

Our audit work has not identified any issues in respect of the valuation of the pension fund liability

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

5

Employee remuneration

Payroll expenditure represents a significant percentage (23%) of your operating expenses.

As the payroll expenditure comes from a number of individual transactions and an interface with number of different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention

Auditor commentary

We have undertaken the following work in relation to this risk:

- documented our understanding of processes and key controls over the transaction cycle
- undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding
- reviewed the completeness of payroll expenditure through substantive analytical procedures

We did not identify any findings or adjustments relating to this risk.

6

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (77%) of your operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention:

Auditor commentary

- evaluated your accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of your system for accounting for non-pay expenditure and evaluate the design of the associated controls;
- considered the completeness of liabilities through a review of post year-end bank statements and other sources

We identified one immaterial finding with respect to the completeness of liabilities – the details of this have been set out in Appendix B

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> Revenue is recognised on an accruals basis in accordance with the Code of Practice. Exceptions to this are payments of regular quarterly accounts (e.g. telephones, electricity) and Penalty Charge Notice income – this policy is consistently applied each year and therefore does not have a material effect on the year’s accounts. Revenue from the sale of goods is recognised when you transfer the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to you. Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probably that economic benefits or service potential associated with the transaction will flow to you 	<ul style="list-style-type: none"> Your revenue recognition policies are appropriate and in line with the CIPFA Code of Practice on Local Authority Accounting. You have significant revenue streams from a number of different sources, principally fees and charges, income from council tax revenues and grant income. We did not identify any issues with how revenue has been recognised from these sources. Accounting policies in respect of revenue recognition are adequately disclosed. 	<p style="text-align: center;">● (Green)</p>


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Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – Pension fund valuations and settlements – Revaluations – Impairments – Provisions – Useful life of capital equipment 	<p>The critical areas of judgement applied in compiling your financial statements have been explained in the statement of accounts.</p> <p>You are advised by external experts in relation to property and pension fund valuations. We have reviewed the work of experts and we have not identified concerns regarding the independence or skills of your experts. Where estimates and judgements have been applied by officers we are satisfied they are free from material bias.</p>	 (Green)

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from you.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to your banks and investment institutions. This permission was granted and the requests were sent and provided.
6	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7	Significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management were provided.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
1 Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to appendix D</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
3 Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> Note that work is not required as you do not exceed the threshold.
4 Certification of the closure of the audit	<p>We intend to certify the closure of the 2017/18 audit of Sevenoaks District Council in the audit opinion, as detailed in Appendix D</p>

Value for Money

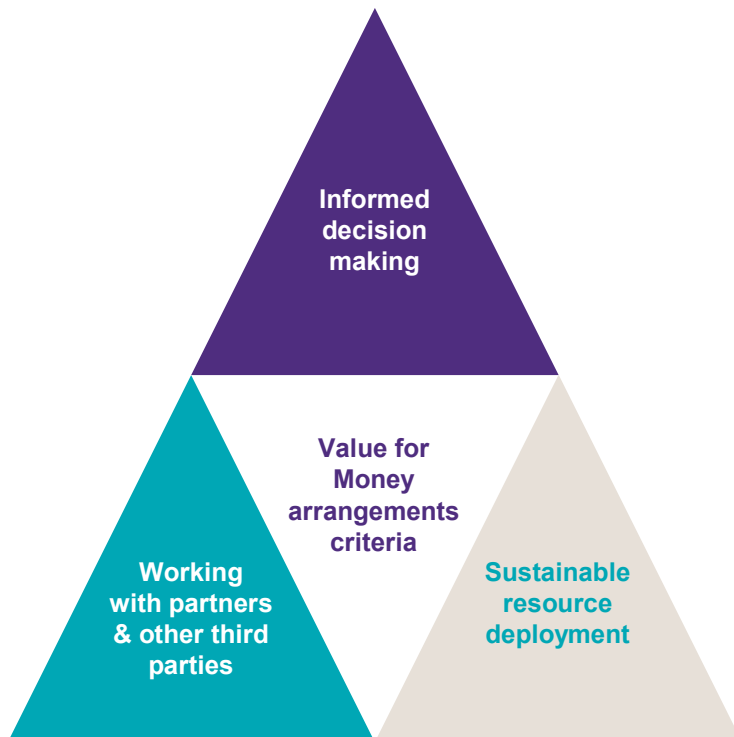
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in March 2018. We have not identified any significant risks from our initial risk assessment using the guidance contained in AGN03. We communicated the results of our planning risk assessment to you in our Audit Plan dated 13 March 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

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Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in your arrangements. In arriving at our conclusion, our main considerations were:

- You delivered another strong financial performance during 2017/18 achieving a surplus on Provision of Services of £856k against a net revenue budget of £14,470k. You have arrangements in place that monitor your performance and report key variances to the Cabinet quarterly. These variances are properly disclosed to stakeholders in Section 5 of the Narrative Report.
- You have arrangements in place to continuously update your medium term financial strategy (MTFS). The MTFS is updated annually and the most recent Plan covers the 10 year period from 2017/18 to 2027/18. The MTFS sets out your key budget assumptions which were reported to the Cabinet in February 2018 including a 2.97% Council Tax rise in 2018/19 and 2% in subsequent years, 2% pay cost increases and 2.25% non-pay cost increases.
- Along with other districts, you have faced reductions in central government funding and your 10 year budget assumes no government support in respect of revenue support grant and new homes bonus. At the time of writing (June 2018) your 2018/19 balanced budget includes contribution of £433k from your stabilisation reserve which stands at £5.61 million as at 31 March 2018. In setting your provisional budgets to 2027/28, you estimate using a total of £2.31 million from the stabilisation reserve. Work is continuing to identify the further medium to longer term savings through a combination of efficiencies and income generation plans such as property acquisitions. During 2017/18, you purchased additional commercial properties for £0.2 million taking the fair value of your investment properties to £21.4 million as at 31 March 2018, increasing your reported rental income at year end to £0.83 million gross of expenses. Future property acquisitions are expected following cabinet approval. From discussions held with the Finance team in June 2018, other sources of medium-term income generation continue to be explored.
- Your risk management arrangements are adequate. The Audit Committee receives periodic reports on your strategic risks; the last report was presented in September 2017. We have observed a good level of challenge and discussion during Committee meetings.

Overall conclusion

Based on the work we performed to we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Recommendations for improvement

We discussed findings arising from our work with management and have not identified any areas for improvement.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit services were identified.

Follow up of prior year recommendations

We identified the following issues in the audit of Sevenoaks District Council’s 2016/17 financial statements, which resulted in 1 recommendations being reported in our 2016/17 Audit Findings report. *We are pleased to report that management have implemented all of our recommendations.*

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<ul style="list-style-type: none"> Identify further efficiencies in your accounts preparation and supporting working papers preparation to ensure you meet the revised deadline of 31 May for the 2017/18 year. 	Audit comment: Per discussions with management over the course of the audit planning process, and as observed at the Audit Committee, it is clear that management has identified and implemented efficiencies throughout the process – the effectiveness of this was ultimately demonstrated by the fact that a draft set of financial statements was provided on 31 May in line with the deadline and that this was substantively complete to the extent that the information within was auditable and supported by working papers.

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Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We have not identified or proposed any adjustments aside from misclassification and disclosure changes; see next section.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Misclassification	<p>Note 20 Unusable Reserves – Capital Adjustment Account. The line “Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive income and Expenditure Statement” (£67k) has been changed to £149k. A corresponding adjustment in ‘Adjusting Amounts written out of the Revaluation Reserve’ has also been processed (-£97k to -£179k).</p> <p>Within the same note, the line “Capital Grants and contributions credited to the Comprehensive Income and expenditure statement that have been applied to capital financing” (£1,739k) has been changed to £1,318k. A corresponding adjustment in ‘Capital Expenditure charged against the General Fund’ has also been processed (£4,175k to £4,596k)</p> <p>These adjustments are to correct a mapping error in the original note. This has no net impact on the total valuation of reserves or net movement on reserves as a whole.</p>	This error was identified by the Sevenoaks District Council Finance team following the publication of the first draft of the accounts.	✓

Audit Adjustments (continued)

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Misclassification	Note 17 Creditors and Receipts in Advance; Short Term Receipts in Advance. Council Tax. In the draft accounts, the values for Council Tax Payers and Non Domestic Rate were combined into one value of £717k (£596k PY) with the second line erroneously mapped as nil. These values should be split between the two lines at £294k and £423k (£304k and £292k PY) respectively.	<p>This error was identified by the audit team.</p> <ul style="list-style-type: none"> Audit have shared and discussed this error with the Finance team <p>Management response</p> <ul style="list-style-type: none"> These have been adjusted by the Finance team. 	✓
Misclassification	<p>Note 12 Financial Instruments incorrectly excluded £486k of Trade Payables from the category 'financial liabilities'. In line with accounting standards, items are not financial instruments if they exist by way of a statutory duty or represent assets or liabilities that will be settled by non-cash methods. In addition, several prior year comparative figures within the same note had a similar mapping issue.</p> <p>This has no net impact on the primary statements.</p>	<p>This error was identified by the audit team.</p> <ul style="list-style-type: none"> Audit have shared and discussed this error with the Finance team <p>Management response</p> <ul style="list-style-type: none"> These have been adjusted by the Finance team. 	✓

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In addition to these misclassification adjustments, we have also identified a number of minor changes (such as formatting / textual corrections); these are not individually significant enough to warrant separate inclusion within this audit findings report and have been adjusted following discussions with the Finance team.

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Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>1 During our testing of operating expenses, we identified a payment made after the year-end relating to a 2017/18 liability where the liability had not been accrued for in the 2017/18 financial statements and is therefore an unrecorded liability.</p> <p>The value of the error identified was £5k, which is above our accrual de-minimis of £1k. The invoice was not received until after the 18th April accruals cut-off date and the Finance team would manually accrue for significant transactions occurring after this date. The Finance team has reviewed payments of invoices received after 18 April that related to a prior period and has identified that the total is £57k. This is below our triviality threshold. Accordingly we are satisfied that this matter is unlikely to have a material impact on the financial statements.</p>	N/A	N/A	N/A	Error trivial in value.
Overall impact	N/A	N/A	N/A	

Fees

We confirm below our final fees charged for the audit.

Audit Fees

	Proposed fee	Final fee
Council Audit	43,156	43,156*
Grant Certification	13,845**	TBC**
Total audit fees (excluding VAT)	£57,001	TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

No non-audit or audit related services have been undertaken for the Council.

* Final fee equals planned fee as set out in the Audit Plan issued 13 March 2018

** Certification of housing benefit subsidy will be completed by the November 2018 deadline. Fee is indicative and may be subject to change upon completion of work.

Draft Audit opinion

We anticipate we will provide the Council with an unmodified audit report

DRAFT Independent auditor's report to the members of Sevenoaks District Council

Report on the Audit of the Financial Statements Opinion

We have audited the financial statements of Sevenoaks District Council (the 'Authority') for the year ended 31 March 2018 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages **[**xx to xx**]**, [the Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs.

In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes 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 2017/18, which give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Draft – Signature to be inserted

Sarah Ironmonger
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

2nd Floor
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Haslett Avenue West
Crawley
RH10 1HD

[Date]



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RH10 1HS

Direct Line: 01732 227483
Ask for: Mr Alan Mitchell
Your ref:
My ref:
Email: alan.mitchell@sevenoaks.gov.uk
Date: 27 June 2018

Dear Sirs

**Sevenoaks District Council
Financial Statements for the year ended 31 March 2018**

This representation letter is provided in connection with the audit of the financial statements of Sevenoaks District Council for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of 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 2017/18 ("the Code") which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the Council has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii The financial statements are free of material misstatements, including omissions.
- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv We have provided you with:
 - a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

- b additional information that you have requested from us for the purpose of your audit; and
- c unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xvi We have communicated to you all deficiencies in internal control of which management is aware.

xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:

- a management;
- b employees who have significant roles in internal control; or
- c others where the fraud could have a material effect on the financial statements.

xix We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xx We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.

xxii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxiv The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Audit Committee at its meeting on 19th July 2018

Yours faithfully

Name Cllr Grint
Position Audit Committee Chair
Date 19th July 2018

Name Adrian Rowbotham
Position Chief Finance Officer
Date 19th July 2018

Signed on behalf of the Council

Notes from the Audit Committee Working Group meeting, 25th June 2018

In Attendance:

Members: Cllr. M. McArthur (Chair)

Cllr. J. Grint

Cllr. S. Reay

Officers: A. Rowbotham, Chief Finance Officer

A. Mitchell, Head of Finance

V. Wilson, Principal Accountant

Apologies: Cllr. J. Scholey

In Cllr Scholey's absence, Cllr McArthur agreed to chair the working group meeting; Members were thanked for their involvement in the group.

The Head of Finance provided Members with an update in relation to the 17/18 accounts process and external audit work that had been undertaken. The accounts were completed on 24th May 2018, ahead of the 31st May deadline and some 6 weeks earlier than last year's deadline. Auditors began their audit on 4th June and completed their audit field work on 19th June. During the audit, same day responses to all queries had been maintained by the Finance Team, with the exception of some 3rd party information. From the audit and review work carried out so far, there had been no changes to any of the core statements, including the Balance Sheet and Comprehensive Income and Expenditure Statement.

There had been limited changes in terms of the Accounting Code of Practice for the 17/18 accounts; this was largely owing to the reduced timeframes for the production and approval of the accounts. Upon review of the Code requirements, a number of unnecessary disclosures had been removed; this alongside some reformatting, reducing void spaces and blank pages, had resulted in the overall document being 19 pages smaller than last year.

The draft accounts were made available for public inspection from 1st June and will be available until 12th July and this was advertised on the Council's website.

Members were informed of the next steps, including on-going review of working files by the external audit team and officer meetings with the auditors to discuss the audit findings and management letter. The final accounts and auditor findings will be presented to Members at the Audit Committee on 19th July, with the deadline for auditor sign-off by the end of July.

Members noted that they found the accounts document easy to read and wanted to congratulate the Finance Team on their work.

Cllr McArthur led the review of the accounts document, discussing the document section by section.

Section 1: Narrative Report

The narrative report links the performance of the organisation to the financial results of the year. It details what has been achieved and the Council's successes. It also contains details of corporate risks. Risk information is presented at high level - highlighting the more significant risks and mitigating actions. Further information in relation to corporate risks are shared with Members at Committees during the year.

Section 2: Statement of Responsibilities

No significant changes.

Section 3: Comprehensive Income and Expenditure Statement

Members noted the large movements in the Net Cost of Services; officers explained that this was largely due to valuation movements.

Section 4: Movement in Reserves Statement

Members were happy with the statement.

Section 5: Balance Sheet

Members noted the decrease in reserves; officers stated that the planned use of the reserves formed part of the financial strategy. The level of net pension liability was noted, with officers providing some supportive information. Members questioned whether external audit had any concerns about the levels of Local Government Pensions liabilities.

ACTION: Question to be raised at 19th July Audit Committee:

- Do the external auditors have any concerns about the levels of Local Government Pension liabilities?
- Should we, as members, be concerned about the level of pension liability?

Section 6: Cash Flow

Members were happy with the statement.

Section 7: Notes

The Statement of Accounts includes 39 disclosure notes.

The Expenditure and Funding Analysis now formed Note 1 of the document - a slight placement change from the previous year. This links the information provided to Members as part of the outturn report to the figures included in the Comprehensive Income and Expenditure Statement.

The accounting policies now formed Note 2, previously these had been Note 1. Some policies that were not required by the Code or were not relevant to

Sevenoaks District Council had been removed. The accounting policies followed the Code and good practice guidance.

The various disclosure notes were reviewed, with officers providing further information or clarification as required.

Section 8: Collection Fund

Members were happy with the statement.

Upon overall review, Members were happy with the 17/18 draft accounts and the Member Working Group is pleased to recommend to the Audit Committee that the Statement of Accounts 2017/18 be approved and adopted.

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STATEMENT OF ACCOUNTS

2017/2018



Agenda Item 6

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Narrative Report

This Narrative Report seeks to clarify the relationship between the Council's financial statements and other financial information the Council reports externally.

It is the purpose of this report to explain the financial facts and performance of the Council. It follows approved accounting standards and where technical or complex language is required a glossary of key terms can be found at the end of this publication.

1. Introduction

The Statement of Accounts sets out the Council's financial performance for the year and its financial position at the year ended 31 March 2018. It comprises core and supplementary statements, together with disclosure notes. The format and content of the financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the Service Reporting Code of Practice 2017/18.

The Core Statements are:

The **Comprehensive Income and Expenditure Statement** – this records all of the Council's income and expenditure for the year, this expenditure represents a combination of:

- services and activities that the Council is required to carry out by law (statutory duties) such as street cleaning, planning and building control; and
- expenditure focussed on local priorities and needs.

The **Movement in Reserves Statement** is a summary of the changes to the Council's reserves over the course of the year. Reserves are divided into "usable", which can be invested in capital projects or service improvements, and "unusable" which must be set aside for specific purposes.

The **Balance Sheet** is a "snapshot" of the Council's assets, liabilities, cash balances and reserves at the year-end date.

The **Cash Flow Statement** shows the reason for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long term liabilities).

The Supplementary Financial Statements are:

The **Annual Governance Statement** which sets out the governance structures of the Council and its key internal controls.

The **Collection Fund** summarises the collection of council tax and business rates, and the redistribution of a proportion of that money to other public authorities and central government.

The **Pension Fund Account** reports the contributions received, payments to pensioners and the value of net assets invested in the Local Government Pension Scheme on behalf of Council employees.

The Notes to these financial statements provide more detail about the Council's accounting policies and individual transactions.

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2. Chief Finance Officers' Statement – Adrian Rowbotham

Our vision for Sevenoaks District is to 'sustain and develop a fair, safe and thriving local economy' and throughout the Council we recognise the importance of high quality and innovative financial management to help us achieve our aims.

Our 10 year budget framework, introduced in 2011, continues to give us strong foundations to invest in our District. In 2016/17 we achieved our stated aim of financial self-sufficiency and became the first Council in the country to set a budget that no longer relied on grant funding from Government. Then, as now, we are clear that we need to continue to make savings and continue to invest in assets that help us to generate more of our own income. This year we opened our newly developed decked car park at Bradbourne Road in Sevenoaks. Work also started on delivering a much needed hotel for Sevenoaks. Being built on land the Council own, under the terms of a long term lease, we very much look forward to completing the development and Premier Inn opening their new hotel to customers later in the Autumn of 2018. Alongside existing acquisitions, our property investments are benefitting our local economy, generating strong returns and making a significant contribution to maintaining our financial independence.

We continue to be very proud at the recognition we continue to win from our peers regarding the success of our ambition to be financially self-sufficient. This achievement was key to our being awarded both Public Sector Innovator and Grand Prix Winner at the Annual CIPFA Public Finance Awards in 2017. I am incredibly proud that our Finance Team continue to provide the Council with the financial expertise it requires to meet the challenges ahead of us.

This will include our continued efforts to assist the Council to maximise income from business rates. In December 2017 Kent and Medway was successful in its bid to pilot business rates retention in two tier areas. The bid includes each of the District Councils in Kent and initial estimates suggest that Sevenoaks District Council could retain increased business rates in 2018/19 over and above safety net levels, which was previously budgeted for.

I would like to record my thanks to Members, the Finance team and the many others across the Council that have worked hard to make decisions in light of the financial pressures the Council faces and have ensured that services are delivered and money is managed in line with the budgets that were set. Every year since the introduction of the 10 year budget framework the Council has achieved a budget surplus and this would simply not be possible if we did not all support and believe in the vision we have set.

In the coming year we look forward to supporting the Council to make further progress in delivering its Property Investment Strategy, and to meet the challenges that will be ahead for the sector once more clarity is provided on the terms of leaving the European Union. We aim to provide advice on the most effective way to fund our investments and to provide advice and skills to the Council's trading company, Quercus 7 and newly incorporated affordable housing company, Quercus Housing.

As always we will continue to take great pride in the level of service we provide to our customers and aim to provide high quality and accurate budget monitoring reports and financial statements that meet the needs of all that use them.

ADRIAN ROWBOTHAM

Chief Finance Officer

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3. Council Performance

Through the Council's Corporate Plan five promises were made to the District. These are set out below, with a summary of performance outcomes against those targets for the last year.

To provide value for money

- In 2017/18 the Council collected 98.2% of the Council Tax (98.4% in 2016/17) and 98.9% of the business rates (99.1% in 2016/17) due within the year and raised additional income through its Property Investment Strategy which contributed £748,000 to the budget. A further £169,000 was raised through other investments.
- Over the year the Council performed strongly, meeting its targets across 73% of all of its performance indicators (76% in 2016/17).

To work in partnership to keep the District of Sevenoaks safe

- Incidents of anti-social behaviour are the second lowest in the County at 1,739 reports, a fall from the 2,025 reports the previous year.
- 92% of all of the actions in the Council's Community Safety Action Plan were delivered during the year, compared to 82% during 2016/17.

To collect rubbish efficiently and effectively

- The Council continues to provide a weekly collection of all rubbish and recycling to every household in the District.
- During 2017/18 the Council recycled 38.6% of all household waste collected. This is above the target of 35% and more than last year's performance of 35.8%.
- The Council missed only 6.9 waste collections per 100,000 made during 2017/18 (8.5 in 2016/17); this is below the target level of 10.

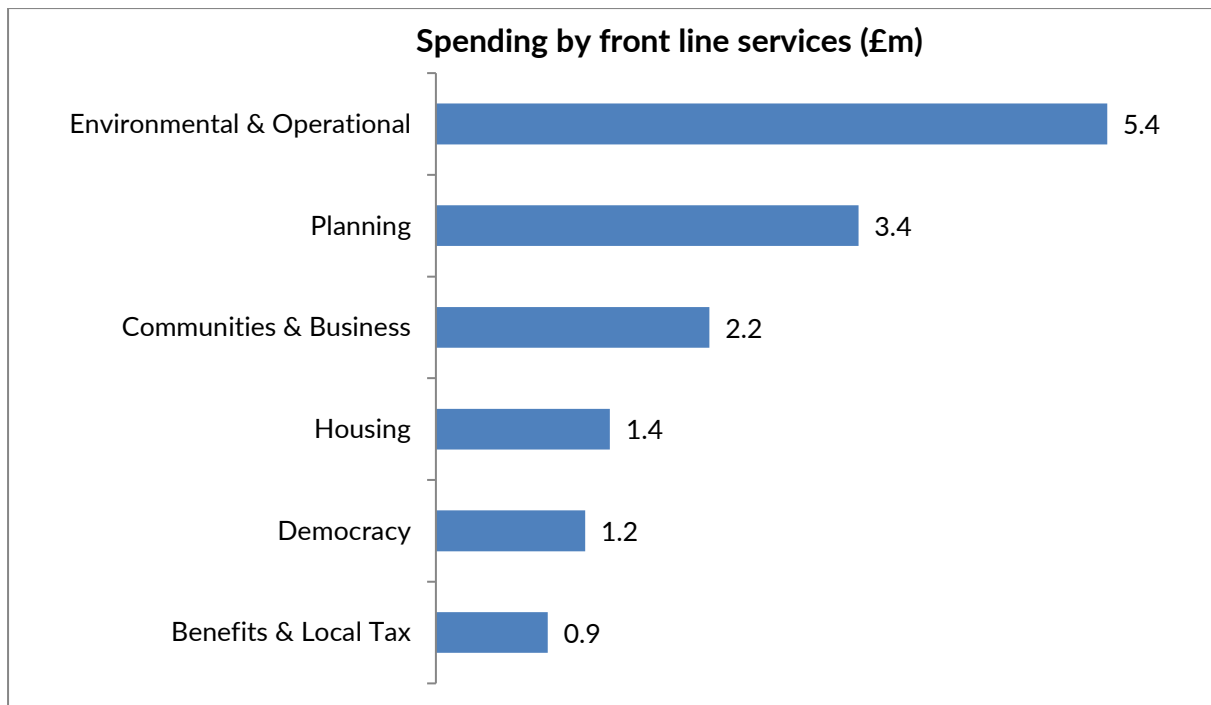
To protect the Green Belt

- The 2017 Local Plan Authority Monitoring Report shows that 81% of housing units were built outside of the Green Belt (94% in 2016 Local Plan Report). The remaining units were either replacement units or the change of use or conversion of existing buildings to residential buildings and were granted in accordance with the Green Belt Policy.

To support and develop the local economy

- The number of businesses in the District has increased year on year from a baseline of 6,365 in 2010 to exceed 7,200 in the last year. Of these, 6,340 are micro businesses, which make a significant contribution to the local economy.
- The Council has also significantly extended a major car park close to the mainline railway station in Sevenoaks in order to provide increased capacity for visitors and commuters and in anticipation of the council's hotel development close by.

Chart 1: The chart below illustrates where we spent our money, by front line service, in 2017/18



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4. Corporate Risk

A risk management strategy is in place to support the Council to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. Below are the main risks from the Council's strategic risk register.

Risk	Potential Effects	Gross Risk Rating	Internal Controls	Net Risk Score
Finance Ability to deliver a balanced budget	<ul style="list-style-type: none"> - Poor financial health - Inability to maintain services and deliver Council Vision and Promises - Reputational damage 	20 High	<ul style="list-style-type: none"> - Self-sufficient budget position; no reliance on direct government funding - Long term 10 year budget framework - Savings Plan - Property Investment Strategy - Strong financial and scenario planning over the short, medium and long term 	10 Medium
Property Investment Strategy The appetite and ability to invest in appropriate opportunities in accordance with the Council's Property Investment Strategy	<ul style="list-style-type: none"> - Ability to seek appropriate investment opportunities - Appetite for risk within investment strategy to enable the Council to generate target returns - Ability to deliver sufficient funds to maximise the opportunities presented through the Property Investment Strategy - Appetite to prudentially borrow over the medium to long term 	16 High	<ul style="list-style-type: none"> - Council approved Property Investment Strategy - Governance arrangements defined with appropriate delegations agreed - Qualified and experienced officers in post - Professional, external advisers engaged to support the development of strategies and fill skills gaps - Effective budget setting and financial monitoring processes embedded 	9 Medium

Continued on next page

Risk	Potential Effects	Gross Risk Rating	Internal Controls	Net Risk Score
<p>Knowledge, capacity & culture Management of the Council's human resources</p>	<ul style="list-style-type: none"> - Employment and retention of high quality staff - Amendments to the Local Government Pension Scheme - Increased demand for services and high levels of work with reduced capacity and resources - Requirement for new skills to deliver the Council's Corporate Plan promises 	<p>16 High</p>	<ul style="list-style-type: none"> - 10 year budget minimises the need for short notice changes to the workforce - Human Resources Strategy including workforce development plan, recruitment and retention policies 	<p>8 Medium</p>
<p>Legal compliance, governance & ethics The ability to recognise and adapt to changes in legislation and to deliver proper governance, scrutiny and internal control to protect the Council from poor practice and mismanagement</p>	<ul style="list-style-type: none"> - Ineffective political and management leadership - Ineffective scrutiny of decision making and performance - Failure to fulfil statutory duties - Failure to maximise the opportunities changes to legislation may bring 	<p>12 Medium</p>	<ul style="list-style-type: none"> - Dedicated Lexcel accredited Legal team - Council's Constitution - Internal Audit function complies with Public Sector Internal Audit Standards - Risk Management processes embedded 	<p>6 Low</p>

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5. Financial Performance

Operating Environment

Since 2010 Sevenoaks District Council has faced significant financial challenges due to reductions in funding from central government along with cost pressures within services and greater volatility in financing. This challenging environment is on-going and includes additional uncertainty regarding the detail of the terms of leaving the European Union.

The Council continuously reviews the environment it operates within, seeking to develop a stronger understanding of the financial opportunities and challenges it faces.

During 2017 the Government invited local authorities to apply to become pilot areas for business rate retention to pioneer new pooling and tier-split models. As part of the bid from Kent and Medway, including all of the Kent Districts, Sevenoaks District Council will benefit from being a pilot for business rate retention during 2018/19.

However, local government funding policy continues to present significant challenges locally. Sevenoaks District is 93% Green Belt. This means there is little space to build or develop new business space. This equally applies to the Council's ability to provide more housing which limits the amount by which the Council can increase its income from New Homes Bonus, which has been subject to review by Government, or from growth in council tax receipts linked to each new home.

The prospects for Government funding being able to fund the local services that the Council wishes to provide to meet its residents needs are therefore relatively low. It is for this reason the Council set out its ambition for financial self-sufficiency, which it achieved last year, and continues to maintain.

Financial conditions also mean that the Council must work hard to retain and recruit the very best people. What can be provided in salary is contained within national terms and conditions. It is increasingly evident that attracting high quality staff will remain a challenge over the medium term. However the Council is committed to being a great place to work, which is underlined by the fact it was the very first public sector organisation anywhere in the world to achieve Platinum through its Investors in People assessment. The Council's focus on its people has never been greater and continuing to maintain this will be critical to the Council's future success.

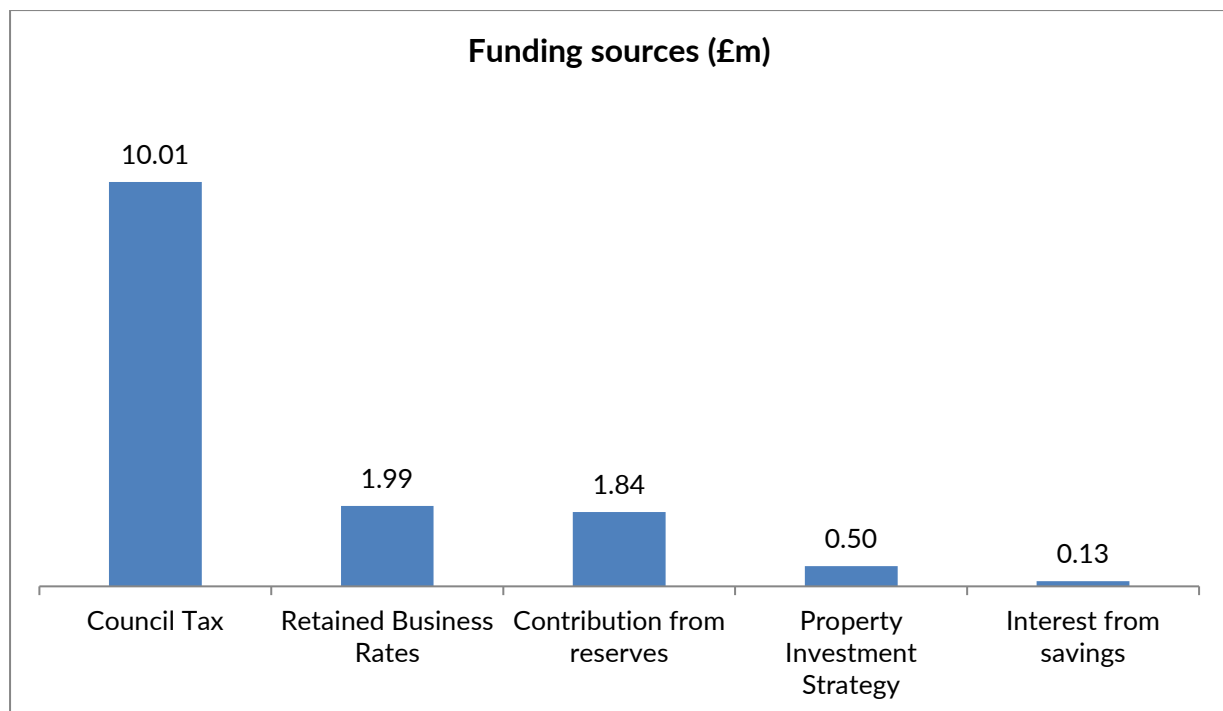
Revenue

Sevenoaks District Council set its budget for 2017/18 at a meeting of the Council on 21 February 2017. Overall, the Council’s net revenue budget increased in 2017/18 to £14.470 million from £13.689 million in 2016/17.

The final outturn position is a surplus of £617,000 as reported plus additional Section 31 grants which means £856,000 was transferred to the Budget Stabilisation Reserve to support future budgets, leaving a nil movement on the General Fund Reserve. There were no material events after the reporting period.

The adoption of the 10-year budget over the last seven years has resulted in a much more stable budget position than had previously been achieved. The aim of the ten year budget is to meet the primary financial objective of reducing reliance on reserves, whilst enabling the Council to invest in priority services.

Chart 2: The chart below illustrates where the Council received the money it spends.



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Capital & assets

Table 1: The table below shows the net capital budget over the period of 2017 to 2020 by service area.

Service area & schemes	Funding Source	2017/18	2018/19	2019/20	2020/21
		Forecast	Budget	Budget	Budget
		£'000	£'000	£'000	£'000
Communities & Business					
Parish projects	Capital Receipts	10	51	-	-
Environmental & Operational Services					
Dunbrik vehicle workshop	Capital Receipts	4	-	-	-
Dunbrik vehicle wash	Capital Receipts	30	-	-	-
Commercial vehicle replacements	Vehicle renewal reserve	548	548	549	563
Disabled facilities grants (gross)	Better Care Fund	675	889	889	889
Sennocke hotel	Fin Plan Reserve & Capital Receipts	4,142	2,928	82	-
Bradbourne car park	Internal borrowing	36	-	-	-
Buckhurst 2 car park	Capital Receipts	3,890	5,931	26	-
CCTV	Capital Receipts	-	50	20	-
Finance					
Property Investment Strategy	Prop. Inv. reserve	97	25,198	-	-
TOTAL		9,432	35,595	1,566	1,452

Table 2: The Council’s capital programme is fully funded from the funding sources available to it. These are set out in the table below.

Funding sources	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Capital Receipts	2,686	4,111	46	-
Financial Plan Reserve & Cap Receipts	1,500	2,928	82	-
Vehicle Renewal Reserve	548	548	549	563
Property Investment Strategy Reserve ***	97	25,198	-	-
Better Care Fund (KCC)	675	889	889	889
Internal Borrowing	36	-	-	-
Capital Reserve (from Revenue)	-	561	-	-
External Borrowing	3,890	1,360	-	-
TOTAL	9,432	35,595	1,566	1,452

*** Part will be funded from Capital Receipts

The introduction of the fair value accounting policy has been implemented in the production of the 2017/18 Statement of Accounts.

Further details are provided in section 2.22 of the Notes to the Core Financial Statements.

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Borrowing & Investments

As at 31 March 2018 the Council had borrowing to the value of £5.25 million from the Public Works Loan Board.

At a low interest rate of 2.66% the borrowing will help to fund the development of the Buckhurst 2 car park and is repayable over 30 years. The loan repayments will be funded from the increased income generated by the additional car parking spaces provided by the development.

During 2017/18 the Council internally borrowed to fund the redevelopment of the Bradbourne car park in Sevenoaks. This has now been completed and is providing increased parking capacity adjacent to Sevenoaks train station whilst also releasing the site of the Sennocke car park for the current development of a hotel.

During 2017/18 the Council acquired no new properties and there were no significant disposals.

Cash flow

The Cash Flow Statement shows the changes in cash and cash equivalents during the reporting period.

At the 31 March 2017 the Council held £9.5m in cash and cash equivalents.

At the 31 March 2018 the Council held £7.4m in cash and cash equivalents.

The reduction is attributable to the long term investment in property assets set out above.

Contingencies

The Council's significant provision relates to Business Rates valuation appeals. Following Business Rates localisation, introduced in 2013, the Council has to set aside a provision for any future successful ratepayer appeals against rateable valuations.

During 2017/18 the Council made an additional provision of £3.7m and during the year used £3.9m of its total provision for business rates appeals.

Business rates – valuation appeals provision	£2.469m at 1 April 2017	£2.232m at 31 March 2018
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Pensions

The Council participates in the Local Government Pension Scheme, administered by Kent County Council. This is a funded defined benefit final salary scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Council has net pension liabilities of £91.4m at 31 March 2018 compared to £97.3m at 31 March 2017 in the Balance Sheet as calculated under IAS19 (International Accounting Standard 19). This reflects the value of pension liabilities which the Council is required to pay in the future as they fall due, offset by the value of assets invested in the pension fund.

The Council's pension fund has to be revalued every three years to set future contribution rates. The last valuation was in 2016 and at that time the District Council's actual share of the deficit was £21.6m.

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STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Chief Finance Officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Chief Finance Officer's Certificate

The Accounts present a true and fair view of the financial position as at 31 March 2018 and its income and expenditure for the year ended on that date.

ADRIAN ROWBOTHAM
Chief Finance Officer

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and in the Movement in Reserves Statement.

Comprehensive Income and Expenditure Statement

2016/17			2017/18			
Gross Exp.	Gross Income	Net Exp	Note	Gross Exp	Gross Income	Net Exp
£'000	£'000	£'000		£'000	£'000	£'000
3,006	(428)	2,578		3,221	(720)	2,501
920	(398)	522		1,234	(528)	706
12,589	(6,518)	6,071		17,296	(6,093)	11,203
32,411	(28,973)	3,438		32,294	(28,200)	4,094
4,169	(1,474)	2,695		4,972	(2,223)	2,749
53,095	(37,791)	15,304	24	59,017	(37,764)	21,253
	(1,329)					(127)
	(257)		25			(220)
	3,818					4,006
	6					1
	<u>2,238</u>					<u>3,660</u>
	469		11			(832)
	47					-
	(521)					(750)
	-					58
	2,180		35			2,582
	<u>(260)</u>					<u>(188)</u>
	<u>1,915</u>					<u>870</u>
	(666)		29			(2,193)
	(13,575)					(14,130)
	(1,940)					(1,389)
	(3,603)		29			(3,265)
	<u>(19,784)</u>					<u>(20,977)</u>
	(327)					4,806
	(2,524)		10			1,524
	33,290		35			(9,235)
	<u>30,766</u>					<u>(7,711)</u>
	<u>30,439</u>					<u>(2,905)</u>

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MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. The Movement in Reserves statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

The CIPFA Code of Local Authority Accounting in 2017/18 requires the total General Fund Balance be presented. In the past it was recommended that Earmarked General Fund Reserves be separately presented.

Movement in Reserve Statement

Financial Year 2016/17								
Notes	General Fund Balance	Earmark'd Reserves Balance	Total General Fund Balance	Capital Grants Unapplied	Capital Receipts Reserve	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2016	(1,500)	(22,595)	(24,095)	(133)	(381)	(24,609)	21,434	(3,175)
Movement in reserves during 2016/17								
(Surplus) or deficit on the provision of services	(327)		(327)			(327)	-	(327)
Other Comprehensive Income and Expenditure	-	-	-	-	(1)	(1)	30,767	30,766
Total Comprehensive Income and Expenditure	(327)	-	(327)	-	(1)	(328)	30,767	30,439
Adjustments between accounting basis & funding basis under regulations (note 8)	508	-	508	(666)	239	81	(81)	-
Net (Increase)/ Decrease before Transfers to Earmarked reserves	181	-	181	(666)	238	(247)	30,686	30,439
Year end balance transferred (to)/from Budget Stabilisation Reserve	350	(350)	-	-	-	-	-	-
Other transfers to/from Earmarked Reserves	(531)	531	-	-	-	-	-	-
Total transfers (to)/from Earmarked Reserves (Note 9)	(181)	181	-	-	-	-	-	-
(Increase)/ Decrease in 2016/17	-	181	181	(666)	238	(247)	30,686	30,439
Balance at 31 March 2017	(1,500)	(22,414)	(23,914)	(799)	(143)	(24,856)	52,120	27,264

Financial Year 2017/18									
Notes	General Fund Balance	Earmark'd Reserves Balance	Total General Fund Balance	Capital Grants Unapplied	Capital Receipts Reserve	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2017	(1,500)	(22,414)	(23,914)	(799)	(143)	(24,856)	52,120	27,264	
Movement in reserves during 2017/18									
(Surplus) or deficit on the provision of services	4,806		4,806			4,806		4,806	
Other Comprehensive Income and Expenditure			-		(1)	(1)	(7,710)	(7,711)	
Total Comprehensive Income and Expenditure	4,806	-	4,806	-	(1)	4,805	(7,710)	(2,905)	
Adjustments between accounting basis & funding basis under regulations (note 8)	(1,576)	-	(1,576)	(2,193)	95	(3,674)	3,674	-	
Net (Increase)/ Decrease before Transfers to Earmarked reserves	3,230	-	3,230	(2,193)	94	1,131	(4,036)	(2,905)	
Year end balance transferred (to)/from Budget Stabilisation Reserve	617	(617)	-			-		-	
Other transfers to/from Earmarked Reserves	(3,847)	3,847	-			-		-	
Total transfers (to)/from Earmarked Reserves (Note 9)	(3,230)	3,230	-	-	-	-	-	-	
(Increase)/ Decrease in 2017/18	-	3,230	3,230	(2,193)	94	1,131	(4,036)	(2,905)	
Balance at 31 March 2018	(1,500)	(19,184)	(20,684)	(2,992)	(49)	(23,725)	48,084	24,359	

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BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.

Balance Sheet

31/03/17			31/03/18
£'000	Note		£'000
		Long Term Assets	
33,017	10 & 31	Property, Plant and Equipment	33,888
1,161	10	Operational Property Surplus	1,190
-	38	Heritage Assets	-
20,409	11	Investment Property	21,443
-		Intangible Assets	-
50	12	Long Term Investments	50
265	14	Long Term Debtors	918
<u>54,902</u>		Total Long Term Assets	<u>57,489</u>
		Current Assets	
19,059	12	Short Term Investments	24,046
180	16	Assets held for sale	180
9,533	15	Cash and Cash Equivalents	7,445
48	13	Inventories	46
3,202	14	Short Term Debtors	3,300
288	14	Payments in Advance	265
<u>32,310</u>		Total Current Assets	<u>35,282</u>
		Current Liabilities	
(5,792)	17 & 29	Receipts in Advance	(7,604)
(7,975)	17	Short Term Creditors	(9,560)
(2,621)	18	Short Term Provisions	(2,384)
<u>(16,388)</u>		Total Current Liabilities	<u>(19,548)</u>
15,922		Net Current Assets	15,734
		Long Term Liabilities	
(358)	17	Long Term Creditors	(5,489)
(257)	18	Long Term Provisions	(257)
(97,257)	35	Net Pensions Liability	(91,413)
(216)	29	Capital Grants Receipts in Adv.	(423)
<u>(98,088)</u>		Total Long Term Liabilities	<u>(97,582)</u>
<u>(27,264)</u>		Total Net Assets/(Liabilities)	<u>(24,359)</u>

Balance Sheet (cont)

31/03/17			31/03/18
£'000	Note		£'000
		Usable Reserves	
(143)	MIRS	Usable Capital Receipts Reserve	(49)
(22,414)	9	Earmarked Reserves	(19,184)
(799)	MIRS	Capital Grants Unapplied	(2,992)
(1,500)	MIRS	General Fund	(1,500)
<u>(24,856)</u>		Subtotal Usable Reserves	<u>(23,725)</u>
		Unusable Reserves	
(26,567)	20	Capital Adjustment Account	(26,040)
(18,649)	20	Revaluation Reserve	(16,946)
152	20	Accumulated Absences Act.	152
103	20	Collection Fund Adj. Account	(327)
97,257	20 & 35	Pensions Reserve	91,413
(176)	20	Deferred Capital Receipts	(168)
<u>52,120</u>		Subtotal Unusable Reserves	<u>48,084</u>
<u>27,264</u>		Total Reserves	<u>24,359</u>

These unaudited financial statements will be replaced by the audited financial statements authorised at the meeting of the Audit Committee on 19 July 2018

Adrian Rowbotham
Chief Finance Officer
XX XXXXX 2018

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THE CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as Operating, Investing and Financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

2016/17 £'000	Note		2017/18 £'000
(327)		Net (surplus) or deficit on the provision of services	4,806
(10,114)	21	Adjustments to net (surplus) or deficit on the provision of services for non-cash movements	(10,122)
5,458	21	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	1,158
(4,983)		Net cash flows from operating activities	(4,158)
8,606	22	Investing Activities	13,753
(673)	23	Financing Activities	(7,507)
2,950		Net (increase) or decrease in cash and cash equivalents	2,088
(12,483)		Cash and cash equivalents at the beginning of the reporting period	(9,533)
(9,533)	15	Cash and Cash Equivalents at the end of the reporting period	(7,445)

NOTES TO THE CORE FINANCIAL STATEMENTS

Note 1. EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services

Expenditure and Funding Analysis

2016/17			2017/18		
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000	£000	£000	£000
1,377	1,201	2,578	1,464	1,037	2,501
2,736	(2,214)	522	2,914	(2,208)	706
4,586	1,485	6,071	4,828	6,375	11,203
4,231	(793)	3,438	4,371	(277)	4,094
1,434	1,261	2,695	1,181	1,568	2,749
14,364	940	15,304	14,758	6,495	21,253
(14,183)	(1,448)	(15,631)	(11,528)	(4,919)	(16,447)
181	(508)	(327)	3,230	1,576	4,806
(24,095)			(23,914)		
181			3,230		
(23,914)			(20,684)		

Note 2. Accounting Policies

2.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the Service Reporting Code of Practice 2017/18, supported by International Financial Reporting Standards (IFRS).

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The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2.2 Accruals of Income and Expenditure

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code of Practice. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year.

Exceptions to this are payments of regular quarterly accounts (e.g. telephones, electricity) and Penalty Charge Notice income. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts. Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.
- Accruals for income are offset by allowances for the impairment of debt where it is determined that recovery is unlikely, although the Council continues to attempt to recover sums legally due. This policy applies to contractual debt as well as to statutory debt for Council Tax, Non-Domestic Rates and overpayments of Housing Benefit.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The Council collects income from payers of Council Tax and Non-Domestic Ratepayers, but only part of the income relates to this Council, the balance being collected on behalf of other major precepting authorities, as well as the Government. The amounts of debtors, adjustments for doubtful debts, and income in advance that relate to the precepting authorities are shown as a single net debtor or creditor in the balance sheet. The surplus element of the Collection Fund due to preceptors is split between payments due to be made in the following financial year, which are held as Short Term Creditors, and any other amounts, due in succeeding financial years, which are shown as Long Term Creditors. In the event of a deficit, the amounts are split between Short Term and Long Term Debtors.

2.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. The officer responsible for Treasury Management has categorised items on the balance sheet as cash equivalents on this basis.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

2.4 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

2.5 Charges to Revenue for Non-Current Assets

Service revenue accounts, central support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service, where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Any subsequent reversal of such losses;
- The annual amortisation of intangible fixed assets attributable to the service.
- Any revenue costs which are met from capital resources as Revenue Expenditure Financed from Capital under Statute (REFCUS – see 2.19 below)

The Council is not required to raise Council Tax to fund these charges, and they are therefore reversed through appropriations from the Capital Adjustment Account to the General Fund. However, the Council is required to make an annual contribution from revenue resources to the Capital Adjustment Account to reduce its overall borrowing requirement. This is termed the Minimum Revenue Provision (MRP).

2.6 Contingent Assets and Liabilities

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential

A contingent asset is a possible asset that arises from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council. Typically a contingent asset is related to a legal action by the Council, whose outcome is uncertain when the balance sheet is compiled.

Contingent assets and liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

2.7 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

When termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amount payable but unpaid at the year-end

Post-employment Benefits

International Accounting Standard 19 became effective from the accounting period starting after 1 January 2013. This standard relates to Pensions and details of the impact of this are recorded in Note 35.

Employees of the Authority are members of the Local Government Pension Scheme, administered by Kent County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees working for the Authority.

The Local Government Scheme is accounted for as a defined benefits scheme:

The liabilities of the Kent County Council Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

The liabilities are valued using a discount rate being the annualised yield at the 19 year point on the Merrill Lynch AA-rated Corporate bond yield curve which was chosen to meet the requirements of IAS19 and with consideration of the Employers liabilities.

The assets of the Kent County Council Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

A revised IAS19 statement applied for company accounting periods beginning on or after 1 January 2013 and the main changes that arose from that standard are:

The expected return on assets has been replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate.

Some labelling changes to the Profit and Loss change e.g. Service costs now include what were previously described as 'Current Service Costs' plus the 'Past Service cost' plus 'Curtailments' plus 'Settlements'. Administration expenses are now accounted for within the Profit and Loss charge, where previously they were a deduction to the actual and expected return on assets.

The change in the net pensions liability is analysed into components of service cost:

- Current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the service for which the employees worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. Past service costs include the cost of curtailments, which are normally linked to an event giving rise to a post employment benefit. Past service costs are debited to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement
- Net interest on the defined liability – the change to the net pension liability that arises from the passage of time during the year. This is charged to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.
- Contributions by scheme participants, which increase plan liabilities, but correspondingly increase plan assets, and are therefore not reflected in the Comprehensive Income and Expenditure Statement
- Remeasurements – changes in the present value of the net pensions liability, resulting from:
 - the return on plan assets, excluding the amounts included in net interest.

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- experience adjustments (the differences between the previous actuarial assumptions and what has actually occurred).
 - the effects of changes in actuarial assumptions
-
- Benefits paid, which reduce plan assets, but correspondingly reduce its liabilities, and are therefore not reflected in the Comprehensive Income and Expenditure Statement
 - Contributions paid to the Kent County Council Pension Fund – the employer’s contributions to the pension fund for the financial year, chargeable to the General Fund, but not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

2.8 Events After the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

2.9 Financial Instruments

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. This includes trade creditors and loans.

Financial assets are classified as loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market. This includes investments, trade debtors and loans.

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are

subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing, and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

Investments are carried at cost. If the value of an investment falls below its cost, the investment is written down to market value and a provision for the unrealised loss made in the Income and Expenditure Account if this is unlikely to be a temporary fall.

2.10 Community Infrastructure Levy

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions as set out in 2.11. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

2.11 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as liabilities. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Grants and contributions towards specific services for revenue purposes are credited against the appropriate line in the Cost of Services, but if grants and contributions are not related to specific services they are credited as Taxation and Non-Specific Grant Expenditure and Income, along with all grants and contributions receivable towards investment in non-current assets. As these capital grants and contributions are not properly credited to the General Fund, an equivalent appropriation is made from the General Fund into the Capital Grants Unapplied Reserve, which is set aside for the financing of capital investment. When it has been applied for financing it is transferred to the Capital Adjustment Account.

2.12 Inventories

Stocks are valued at cost. This is a departure from the requirements of the Code which require inventories to be shown at cost or net realisable value if lower; the effect of the different treatment is immaterial.

2.13 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

2.14 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the assets estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital

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receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

2.15 Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

2.16 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. A de-minimis level of £15,000 has been applied.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Assets are then carried in the Balance Sheet using the following measurement basis:

- infrastructure, community assets and assets under construction - depreciated historical cost
- surplus assets – the current value measurement base is fair value, estimated at the highest and best use from a market participant's perspective.
- all other assets – current value determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);

Where there is no market-based evidence of existing use value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for in the following ways:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following basis:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the authority's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

2.17 Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the authority has an obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

When some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant services if it is virtually certain that reimbursement will be received if the authority settles the obligation.

The specific purposes of the Council's provisions are explained in a note to the Core Financial Statements.

2.18 Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Authority - these reserves are explained in the relevant policies.

2.19 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset (for example, Disabled Facilities Grants) has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing

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capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of council tax.

2.20 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

2.21 Heritage Assets

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies for Property, Plant and Equipment as set out in policy 2.16.

At present the Council has no material heritage assets.

2.22 Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in an authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 - inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - unobservable inputs for the asset or liability.

2.23 Group Accounts

Group accounts will be prepared in accordance with IFRS 10 (consolidated financial statements) and IFRS 12 (disclosure of interests in other entities) where it is considered that the Council has a material interest in subsidiaries.

Note 3. Accounting Standards that have been issued but not yet adopted

There are no new standards that have been issued but not yet adopted which, when adopted, are expected to have a material impact on the Council's financial statements.

IFRS 9 Financial Instruments has been implemented in the 2018/19 CIPFA Accounting Code of Practice. Its introduction will see the classifications of financial assets change to Amortised Cost, Fair Value through Comprehensive Income and Fair Value through Profit and Loss, from the previous categories of Loans and Receivables, Available for Sale and Fair Value through Profit and Loss.

The second main change will be the introduction of an expected credit loss model for particular asset types, rather than an impairment of the asset resulting from a specific incident.

Certain aspects of the introduction of IFRS 9 have been adapted for local authorities, effectively removing the IFRS 9 implications. These cover such areas as soft loans, Lender Option Borrowing Option (LOBO) loans, immaterial transactions, exchanges of debt instruments and hedge accounting.

The impact of these changes on the Authority's financial position is likely to be immaterial. The main financial assets held by the Authority will be treasury management investments which will move from the Loans and Receivables category to Amortised Cost and will be accounted for on a similar basis. In addition, the high credit quality adopted by the Authority for its investment counterparties is likely to see an immaterial expected credit loss position.

Note 4. Critical Judgements in Applying Accounting Policies

In applying the accounting policies, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is much uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not sufficient to provide an indication that the assets of the Authority might be impaired as a result of any need to close facilities or reduce levels of service provision.
- An assessment has been made of the potential liability of valuation appeals arising from business rate premises in respect of monies received by the Council up to 31 March 2018. This provision is based on information received from the Valuation Office Agency. Further details are shown within the notes to the Collection Fund.

Note 5. Prior Period Adjustment

There are no prior period adjustments.

Where the Code of Practice requires analysis on a segmental basis, tables have been re-stated to provide a prior year comparison.

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Note 6. Events After the Balance Sheet Date

Events after the Balance Sheet Date are those events, both favourable and unfavourable, that occur between the end of the financial year and the date when the Statement of Accounts is authorised for issue. There are potentially two types of events:

- If they provide evidence of conditions that existed at the end of the reporting period, the Statement of Accounts is amended to reflect these events;
- If they are indicative of conditions that arose after the reporting period, the Statement of Accounts is not amended. If, however, an event would have a material effect, a disclosure is made in the notes to the accounts, outlining the event and its estimated financial effect.

Any event taking place after the accounts are authorised for issue is not reflected in the Statement of Accounts.

Note 7. Notes to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund Balance to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts 2016/17	Adjustments for Capital £'000s	Net change for the Pensions adjustments £'000s	Other Statutory Adjustments £'000s	Other Differences £'000s	Total £'000s
Communities and Business	107	169	-	925	1,201
Corporate Services	-	46	-	(2,260)	(2,214)
Environmental & Operations	991	454	-	40	1,485
Financial Services	-	(1,344)	-	551	(793)
Planning Services	-	313	-	948	1,261
Net Cost of Services	1,098	(362)	-	204	940
Expenditure and Funding Analysis	(2,580)	2,180	(844)	(204)	(1,448)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement surplus or deficit on the Provision of Services	(1,482)	1,818	(844)	-	(508)

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts 2017/18	Adjustments for Capital £'000s	Net change for the Pensions adjustments £'000s	Other Statutory Adjustments £'000s	Other Differences £'000s	Total £'000s
Communities and Business	42	340	-	655	1,037
Corporate Services	-	121	-	(2,329)	(2,208)
Environmental & Operations	5,897	652	-	(174)	6,375
Financial Services	-	(926)	-	649	(277)
Planning Services	-	622	-	946	1,568
Net Cost of Services	5,939	809	-	(253)	6,495
Other Income and Expenditure from the Expenditure and Funding Analysis	(7,324)	2,582	(430)	253	(4,919)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement surplus or deficit on the Provision of Services	(1,385)	3,391	(430)	-	1,576

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Note 8. Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Adjustments Between Accounting Basis and Funding Basis

Adjustments between Accounting Basis and Funding Basis under Regulations 2016/17	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure statement:				
Charges for depreciation and impairment of non-current assets	(654)	-	-	654
Revaluation losses on Property, Plant and Equipment	(911)	-	-	911
Movements in the market value of Investment Properties	(469)	-	-	469
Capital grants and contributions applied	1,072	-	-	(1,072)
Non Specific Capital Grants				
Revenue expenditure funded from capital under statute	(1,102)	-	-	1,102
Amount of non-current assets written off on disposal or sale as part of the (gain) /loss on disposal to Comprehensive Income and Expenditure Statement	(3,393)	-	-	3,393
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements.	-	-	-	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure statement:				
Transfer of non current asset sale proceeds from revenue to the Capital Receipts Reserve	4,727	(4,727)	-	-
Administrative costs of non current asset disposals (funded by a contribution from the Capital Receipts Reserve	(50)	50	-	-
Capital expenditure charged against the General Fund Balance	1,610	-	-	(1,610)
Capital Grants and Contributions unapplied credited to the Comprehensive Income and Expenditure Statement	666	-	(666)	-
Mitigation of operating lease as lessee reclassified as finance lease upon transition to IFRS	(7)	-	-	7

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Adjustments between Accounting Basis and Funding Basis under Regulations 2016/17 (continued)	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
Use of the Capital Receipts Reserve to finance new capital expenditure	-	4,909	-	(4,909)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(6)	6	-	-
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(5,015)	-	-	5,015
Employer's pensions contributions and direct payments to pensioners payable in the year	3,197	-	-	(3,197)
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(249)	-	-	249
Amount by which Business Rate income credited to the Comprehensive Income and Expenditure Statement is different from Business Rate income calculated for the year in accordance with statutory requirements	1,093	-	-	(1,093)
Adjustments primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from Remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-
Total Adjustments	509	238	(666)	(81)

Adjustments between Accounting Basis and Funding Basis under Regulations 2017/18	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure statement:				
Charges for depreciation and impairment of non-current assets	(717)			717
Revaluation losses on Property, Plant and Equipment	(5,771)			5,771
Movements in the market value of Investment Properties	832			(832)
Capital grants and contributions applied	1,318			(1,318)
Non Specific Capital Grants				
Revenue expenditure funded from capital under statute	(1,336)			1,336
Amount of non-current assets written off on disposal or sale as part of the (gain) /loss on disposal to Comprehensive Income and Expenditure Statement	(149)			149
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements.				-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure statement:				
Transfer of non current asset sale proceeds from revenue to the Capital Receipts Reserve	277	(277)		-
Administrative costs of non current asset disposals (funded by a contribution from the Capital Receipts Reserve				-
Capital expenditure charged against the General Fund Balance	4,596			(4,596)
Statutory provision for the repayment of debt	150			(150)
Capital Grants and Contributions unapplied credited to the Comprehensive Income and Expenditure Statement	2,193		(2,193)	-
Mitigation of operating lease as lessee reclassified as finance lease upon transition to IFRS	(7)			7
Adjustments primarily involving the Capital Receipts Reserve:				

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Adjustments between Accounting Basis and Funding Basis under Regulations 2017/18 (continued)	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
Use of the Capital Receipts Reserve to finance new capital expenditure	-	371	-	(371)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1)	1		-
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(6,692)			6,692
Employer's pensions contributions and direct payments to pensioners payable in the year	3,301			(3,301)
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	110			(110)
Amount by which Business Rate income credited to the Comprehensive Income and Expenditure Statement is different from Business Rate income calculated for the year in accordance with statutory requirements	320			(320)
Adjustments primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from Remuneration chargeable in the year in accordance with statutory requirements				-
Total Adjustments	(1,576)	95	(2,193)	3,674

Note 9. Transfers To/From Usable Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17 and 2017/18.

Transfers to/from Usable Reserves

	Balance at 31/03/16 £'000	Transfers Out 2016/17 £'000	Transfers In 2016/17 £'000	Balance at 31/03/17 £'000	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	Balance at 31/03/18 £'000
General Fund	(1,500)	-	-	(1,500)	-	-	(1,500)
Budget Stabilisation	(8,001)	1,373	(610)	(7,238)	2,484	(856)	(5,610)
Financial Plan	(3,659)	1,378	(2,901)	(5,182)	3,000	(1,838)	(4,020)
Asset Maintenance	(1,000)	-	-	(1,000)	0	-	(1,000)
Business Rates Retention	(2,222)	1,093	-	(1,129)	320	-	(809)
Vehicle Renewal	(605)	708	(535)	(432)	305	(570)	(697)
Housing Benefit Subsidy	(638)	23	(108)	(723)	217	(105)	(611)
IT Asset Maintenance	(346)	-	(142)	(488)	0	(102)	(590)
Corporate Project Support	(233)	105	(373)	(501)	78	(149)	(572)
Local Plan/LDF	(712)	332	(227)	(607)	190	(142)	(559)
Carry Forward Items	(408)	173	(75)	(310)	14	(212)	(508)
Pension Fund	(1,316)	100	-	(1,216)	716	-	(500)
New Homes Bonus	(379)	-	(120)	(499)	30	-	(469)
Capital Financing	(265)	-	(148)	(413)	116	(148)	(445)
Re-organisation Action and Development	(337)	14	(100)	(423)	0	-	(423)
	(396)	-	-	(396)	0	-	(396)
Vehicle Insurance	(312)	2	-	(310)	1	-	(309)
Community and Business	(382)	33	(1)	(350)	78	(2)	(274)
First Time Sewerage	(366)	50	-	(316)	50	-	(266)
Homelessness Prevention	(98)	62	(30)	(66)	26	(191)	(231)
Flood Support	(144)	-	-	(144)	0	-	(144)
Community Infrastructure Levy Administration	(6)	-	-	(6)	0	(101)	(107)
Other	(770)	448	(343)	(665)	1,772	(1,751)	(644)
Grand Total	(24,095)	5,894	(5,713)	(23,914)	9,397	(6,167)	(20,684)

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The purpose of these usable reserves is shown below:

Budget Stabilisation - To support decisions required to continue to produce a balanced budget in future years in spite of expected funding reductions.

Financial Plan – Funds that support the 10-year budget strategy.

Asset Maintenance – To fund emergency asset maintenance works.

Business Rates Retention– To manage the volatility in yearly cash flows in the Collection Fund caused by the complexities in the Business Rates Retention Scheme.

Vehicle Renewal - Funding for future commercial vehicle replacements.

Housing Benefit Subsidy - Provides a cushion against large movements in reclaimable sums in any year.

IT Asset Maintenance – To fund future IT asset maintenance costs.

Corporate Project Support - To support investigation and development of Corporate Projects.

Local Plan / LDF - To help support the Local Plan and Local Development Framework.

Carry Forward Items - For specific items agreed by Cabinet.

Pension Fund - To contribute towards any future downturns in the pension fund following actuarial valuations.

New Homes Bonus - Due to the uncertainty of future Government funding an element of the New Homes Bonus is being kept separate as part of the 10 year Financial Plan.

Capital Financing – Annual contributions from revenue to fund some capital projects.

Re-organisation - To fund actions taken to achieve annual budget savings.

Action and Development - To fund ad hoc expenditure e.g. resulting from an emergency.

Vehicle Insurance - Provides own damage cover on the Council's commercial vehicle fleet.

Community and Business - To fund ongoing and future projects.

First Time Sewerage – Transferred from a provision for potential liabilities relating to earlier sewerage installations.

Homelessness – To assist in the delivery of the Homelessness Reduction Act.

Flood Support – Flooding reserve to help provide assistance in the case of severe flooding.

Community Infrastructure Levy Administration - To be spent on the administration of the levy.

Other - Other small reserves set aside.

Note 10. Property, Plant and Equipment

Movements on Balances

	Land and Buildings £'000	Vehicles, Plant & Equipment £'000	Community Assets £'000	Operational Property Surplus £'000	Assets Under Construction £'000	Total Property, Plant & Equipment £'000
Movements in 2016/17:						
Cost or Valuation						
At 1 April 2016	23,965	5,074	211	1,642	-	30,892
Additions	527	708	-	134	5,309	6,678
Revaluation increases/ (decreases) recognised in:						
- Revaluation Reserve	2,117	-	-	47	-	2,164
- Surplus or Deficit	(284)	-	-	(662)	-	(946)
Derecognition – Disposals	(110)	(660)	-	-	-	(770)
Derecognition – Other	-	-	-	-	-	-
Reclassifications in PPE	(1,755)	-	-	-	1,755	-
Reclassifications other	(146)	-	-	-	-	(146)
At 31 March 2017	24,314	5,122	211	1,161	7,064	37,872
Accumulated Depreciation and Impairment						
At 1 April 2016	(427)	(3,638)	-	-	-	(4,065)
Depreciation Charge	(147)	(506)	-	-	-	(653)
Depreciation written out to the						
- Revaluation Reserve	358	-	-	-	-	358
- Surplus or Deficit on the provision of services	-	-	-	-	-	-
Derecognition – Disposals	6	660	-	-	-	666
Derecognition – Other	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
At 31 March 2017	(210)	(3,484)	-	-	-	(3,694)
Net Book Value						
As at 31 March 2017	24,104	1,638	211	1,161	7,064	34,178

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	Land and Buildings £'000	Vehicles, Plant & Equipment £'000	Community Assets £'000	Operational Property Surplus £'000	Assets Under Construction £'000	Total Property, Plant & Equipment £'000
Movements in 2017/18:						
Cost or Valuation						
At 1 April 2017	24,314	5,122	211	1,161	7,064	37,872
Additions	63	305			8,693	9,061
Revaluation increases/ (decreases) recognised in:						
- Revaluation Reserve	(1,558)			29		(1,529)
- Surplus or Deficit	(5,771)					(5,771)
Derecognition – Disposals	(154)	(147)				(301)
Derecognition – Other						-
Reclassifications in PPE						-
Reclassifications other	3,931				(3,931)	-
At 31 March 2018	<u>20,825</u>	<u>5,280</u>	<u>211</u>	<u>1,190</u>	<u>11,826</u>	<u>39,332</u>
Accumulated Depreciation and Impairment						
At 1 April 2017	(210)	(3,484)	-	-	-	(3,694)
Depreciation Charge	(150)	(567)				(717)
Depreciation written out to the						-
- Revaluation Reserve	5					5
- Surplus or Deficit on the provision of services						-
Derecognition – Disposals	5	147				152
Derecognition - Other						-
Reclassifications						-
At 31 March 2018	<u>(350)</u>	<u>(3,904)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,254)</u>
Net Book Value						
As at 31 March 2018	20,475	1,376	211	1,190	11,826	35,078

Capital Commitments

At 31 March 2018, there were no significant sums outstanding on capital contracts.

Surplus Assets

Details of the authority's Surplus Assets and information about the fair value hierarchy

	31st March 2017 £'000	31st March 2018 £'000
Operational Property Surplus		
Quoted Prices in active market for identical assets (Level 1)	-	-
Other significant observable inputs (Level 2)	1,161	1,190
Significant un-observable inputs (Level 3)	-	-
Fair Value	1,161	1,190

The following significant observable inputs were used to determine the level 2 fair value for Surplus Assets:

The fair value for the properties (at market rates) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy. Appropriate adjustments have been made to account for planning risk and associated uncertainties where planning permission does not already exist for the highest and best use.

The assets which include the site of the Swanley Mens Working Mens Club and property in the High Street are surplus to operational needs and are being held pending redevelopment of the site.

The fair value of the authority's Surplus Assets is measured annually. All valuations are carried out by external valuers in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuers work closely with finance officers reporting directly to the Chief Finance Officer on a regular basis regarding all valuation matters.

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Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Each class of asset is valued at the same time.

The freehold and leasehold properties which comprise the Authority's property portfolio have been valued as at 31st March 2018, by external independent valuers, Wilks, Head and Eve, Chartered Surveyors. Valuations have been made on the undermentioned bases in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors, except that not all the properties were inspected. This was neither practicable nor considered by the valuers to be necessary for the purpose of the valuation.

Plant and machinery that forms part of a building is included in the valuation

Properties regarded by the Authority as operational were valued on the basis of Existing Use Value or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost. Useful economic lives for these properties are generally 35 years.

Properties regarded by the Authority as investment properties have been valued on the basis of market value, again with useful economic lives of generally 35 years.

Vehicles, plant and equipment in the balance sheet relate to the Council's commercial vehicle fleet, computer equipment, fitness equipment in the leisure centres, air quality monitoring equipment, CCTV equipment and playground equipment. Most equipment is depreciated over 5 years, with larger commercial vehicles over 7 years or, exceptionally, 10 years.

The regular rolling programme of asset valuation is as follows:

Year of Valuation	Class of asset valued in year
2017/18	Investment Properties; Amenity Land, Car Parks, Community Offices
2016/17	Investment Properties; Amenity Land
2015/16	Investment Properties; Leisure Centres, Golf Course*, Hollybush Depot, premises and grounds*
2014/15	Investment Properties, Stag Theatre, Parks* and Woodlands
2013/14	Investment Properties; car parks, public conveniences
2012/13	Investment Properties; Depot, Offices, bus station.

* By exception properties in these groups were also revalued in 2017/18.

The following statement shows the progress on the Council's rolling programme for the revaluation of Property, Plant and Equipment:

	Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Community Assets £'000	Assets Held for Sale £'000	Assets Under Construction £'000	Surplus Assets £'000	TOTAL £'000
Carried at historical cost:		5,277	211	-	-	-	5,488
Valued at current value in:							
2017/18	9,589	-	-	150	11,826	1,189	22,754
2016/17	10,952	-	-	30	-	-	10,982
2015/16	80	-	-	-	-	-	80
2014/15	17	-	-	-	-	-	17
2013/14	-	-	-	-	-	-	-
2012/13	-	-	-	-	-	-	-
Total	20,638	5,277	211	180	11,826	1,189	39,321

Note 11. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2016/17 £'000	2017/18 £'000
Rental income from investment property	(725)	(837)
Direct operating expenses from investment property	203	87
Net income from Investment Properties	(522)	(750)

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There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2016/17 £'000	2017/18 £'000
Balance at start of the year	12,687	20,409
Purchases	9,459	202
Disposals	(1,268)	-
Net Gains/ (losses) from fair value adjustment	(469)	832
	<u>20,409</u>	<u>21,443</u>

Details of the authority's Investment Properties and information about the fair value hierarchy at 31 March 2018 are as follows:

	31st March 2017 £'000	31st March 2018 £'000
Existing properties generating rental income		
Quoted Prices in active market for identical assets (Level 1)		
Other significant observable inputs (Level 2)	2,427	2,524
Significant un-observable inputs (Level 3)		
Property Investment Strategy		
Quoted Prices in active market for identical assets (Level 1)		
Other significant observable inputs (Level 2)	17,982	18,919
Significant un-observable inputs (Level 3)		
Total Fair Value	<u>20,409</u>	<u>21,443</u>

The observable inputs used for the fair value calculation for Investment properties are the same as previously stated for Surplus Assets.

Properties are subject to leases with varying review dates.

The fair value of the authority's Investment Properties is measured annually. All valuations are carried out by external valuers in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuers work closely with finance officers reporting directly to the Chief Finance Officer on a regular basis regarding all valuation matters.

Note 12. Financial Instruments

The investment figures are made up mainly of surplus capital and revenue reserve balances. The investments are placed with recognised financial institutions. These are classified in the loans and receivables category of financial instruments, having fixed or determinate payments and not quoted in an active market.

Balances due to our trade creditors and from our trade debtors are also included here.

The balances, which include the principal and the interest accrued, at the year end can be analysed as follows:

	Long Term		Current	
	2016/17	2017/18	2016/17	2017/18
	£'000	£'000	£'000	£'000
Loans & Receivables				
Investments	50	50	19,059	24,046
Net trade receivables (within debtors)	265	918	1,020	1,154
Cash & cash equivalents	-	-	9,533	7,445
Total Financial Assets	315	968	29,612	32,645
Financial Liabilities at amortised cost				
Borrowings	-	(5,133)	-	(174)
Trade payables (within Creditors)	(358)	(356)	(2,039)	(2,627)
Total Financial Liabilities	(358)	(5,489)	(2,039)	(2,801)

Short-term investments are those that were placed for a period in excess of three months and fall to be repaid within one year of the balance sheet date. Long-term investments were placed for over one year. Investments placed for less than three months are treated as cash or cash equivalents.

Net trade receivables also include sums owed by our partnership councils as at 31 March 2018.

Financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. The fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

Market rates at 31 March 2018 for comparable instruments with the same duration.

	31/03/2017		31/03/2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Loans and receivables	28,112	28,122	30,201	30,201

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Where the fair value is lower or greater than the carrying amount it will be because the Council's portfolio of loans includes a number of the fixed rate loans where the interest payable is lower or higher than the rates available for similar loans in the market at the balance sheet date and the difference in interest rates is material. The fair value shows a notional future gain or loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders below or above current market rates.

The table, below, shows how the fair value of the financial assets held at amortised cost is determined.

	Quoted prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant un-observable inputs (Level 3) £'000	Total £'000
Investment in Municipal Bonds Agency	-	-	50	50
Deposits with Banks, Building Societies and other Local Authorities	-	29,051	-	29,051
Deposits in Money Market Funds	1,100	-	-	1,100
Total 2017/18	1,100	29,051	50	30,201

The fair value for financial assets that are not measured at fair value included in levels 2 and 3 in the table above have been arrived at using a comparison of the fixed term investment with a comparable investment with the same/similar lender for the remaining period of the deposit. There is no clear market price, or reasonable proxy, for the investment with the Municipal Bonds Agency as it is not tradeable. It has, therefore, been included at cost.

The fair value for financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:-

- 1) No early repayment or impairment is recognised.
- 2) Estimated range of interest rates at 31 March 2018 of 0.43% to 0.97%, obtained from the market, using bid prices where applicable.

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

There were no transfers between levels of the fair value hierarchy during the year. There has been no change in the valuation techniques used for financial assets.

Disclosure of nature and extent of risks arising from financial instruments

The Authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have the funds available to meet its commitments to make payments.
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate or stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services.

Risk management is carried out by treasury management officers under policies approved by the Council in the annual treasury management strategy. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

The Council uses the creditworthiness service provided by its treasury management consultant, Link Asset Services. This service uses a sophisticated modelling approach that combines credit ratings from the above mentioned rating agencies as the core element with other subjective overlays. In addition, the Council has the following policies:

- Maximum investment period of two years.
- Lending to Building Societies restricted to the top five Societies ranked by assets with a maximum investment period of 100 days if the Society does not satisfy the creditworthiness modelling approach.
- No more than £6m (or £7m including call accounts) per counterparty with the exception of the Lloyds Banking Group and Royal Bank of Scotland Group where the limit is £10m per Group. For Building Societies, the limit is £5m where the Society satisfies the creditworthiness modelling approach, or £2m if it doesn't.

Investments are limited to 25% of the total fund to any single institution or institutions within a group of companies, with the exception of the Lloyds Banking Group and Royal Bank of Scotland Group where the limit is 30%.

Total investments in any one country outside of the UK, is limited to 15% of the total fund.

Investment in non-UK banks is subject to prior approval by Committee.

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The Strategy also permits investment with other local authorities and the UK Government's Debt Management Office for periods up to 2 years and six months respectively. Money Market Funds and Enhanced Money Market Funds are also utilised with a combined maximum deposit of £5m per provider.

The full investment strategy for 2017/18 was approved by Council on 21 February 2017.

There were no breaches of the Council's counterparty criteria during the reporting period.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £19.9m at 31 March 2018 cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2018 that this was likely to crystallise.

Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Thus, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets is shown in the table below.

	31/03/17 £'000	31/03/18 £'000
Less than 1 year	29,320	30,960
Over 1 year	-	-
	<u>29,320</u>	<u>30,960</u>

Refinancing and Maturity Risk

The Council maintains a substantial investment portfolio and a relatively small amount of debt. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets. As the Council has only a small amount of debt and does not lend for periods in excess of two years, this risk is not considered significant.

Market Risk

Interest Rate Risk

Upwards or downwards movements in interest rates may have a complex impact on the Council. For instance, a rise in variable and fixed interest rates would have the following effects:

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Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;

Borrowings at fixed rates – the fair value of the borrowing will fall (but no impact on revenue balances);

Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and

Investments at fixed rates – the fair value of the assets will fall (but no impact on revenue balances).

The treasury management team has an active strategy for assessing interest risk exposure that feeds into the setting of the annual budget.

By way of example, if interest rates on fixed deposits had been 1% higher during 2017/18 (with all other variables held constant), the financial effect would have been to increase investment income by £468,000.

Price Risk

The Council does not invest in equity shares or marketable bonds and is not, therefore, exposed to losses arising from movements in prices.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies. It, therefore, has no exposure to loss arising from movements in exchange rates.

Note 13. Inventories

This refers to stocks of salt and fuel held at the Dunbrik depot and wood stocks at Farningham Woods.

	2016/17 £'000	2017/18 £'000
Balance outstanding at start of the year	50	48
Purchases	461	438
Recognised as an expense in the year	(463)	(440)
Balance outstanding at end of the year	48	46

Note 14. Debtors

Short Term Debtors

31/03/17 £'000		31/03/18 £'000
1,023	Central Government Bodies	583
825	Other Local Authorities	847
313	Council Tax Payers	415
380	Non Domestic Rate	508
949	Other entities and individuals	1,212
3,490	Total	3,565

Balance incorporates prepayments

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Long Term Debtors

31/03/17 £'000		31/03/18 £'000
265	Other entities and individuals	918
<u>265</u>	Total	<u>918</u>

The carrying amount is also deemed to be the fair value (being the amount that the market is willing to exchange assets).

Note 15. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31/03/17 £'000	31/03/18 £'000
Cash held by the Authority	4	9
Bank current accounts	525	1,331
Short-term deposits with:		
Banks	3,001	4,002
Building Societies	1,001	-
Other Local Authorities	-	1,001
Money Market Funds	5,002	1,102
Total Cash and Cash Equivalents	<u>9,533</u>	<u>7,445</u>

Note 16. Assets Held for Sale

	2016/17 £'000	2017/18 £'000
Balance at start of the year	2,021	180
Purchases	-	-
Disposals	(2,021)	-
Net Gains/ (losses) from fair value adjustment	35	-
Assets newly classified as held for sale	145	-
Asset de-classified as held for sale	-	-
	<u>180</u>	<u>180</u>

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Assets Held for Sale are carried at the lower of their carrying value or their fair value less costs to sell. Details of the authority's Assets Held for Sale and information about the fair value hierarchy at 31 March 2018 are as follows:

	Carrying Value £'000	Fair Value £'000	Quoted prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000
Assets held for Sale 2017/18	180	1,013		1,013	-
Assets held for Sale 2016/17	180	528	-	528	-

The following significant observable inputs were used to determine the level 2 fair value for Surplus Assets:

The fair value for the properties (at market rates) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy. Appropriate adjustments have been made to account for planning risk and associated uncertainties where planning permission does not already exist for the highest and best use.

The fair value of the authority's Assets Held for Sale is measured annually. All valuations are carried out by external valuers in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuers work closely with finance officers reporting directly to the Chief Finance Officer on a regular basis regarding all valuation matters.

Note 17. Creditors and Receipts in Advance

Short Term Creditors

31/03/17 £'000		31/03/18 £'000
(577)	Central Government Bodies	(542)
(876)	Other Local Authorities	(1,094)
(909)	Council Tax Payers	(1,088)
(4,392)	Non Domestic Rate	(4,695)
(1,221)	Other entities and individuals	(2,141)
<u>(7,975)</u>	Total	<u>(9,560)</u>

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Long Term Creditors

31/03/17 £'000		31/03/18 £'000
-	Central Government Bodies	(5,133)
(358)	Other Local Authorities	(356)
<u>(358)</u>	Total	<u>(5,489)</u>

Short Term Receipts in Advance

31/03/17 £'000		31/03/18 £'000
(32)	Central Government Bodies	(29)
(398)	Other Local Authorities	(333)
(304)	Council Tax Payers	(294)
(292)	Non Domestic Rate	(423)
(180)	Other entities and individuals	(293)
<u>(1,206)</u>	Total	<u>(1,372)</u>

Note 18. Provisions

The following provisions have been made by the Council:

The carrying amount is also deemed to be the fair value (being the amount that the market is willing to settle liabilities).

	Long Term MMI £'000	Short Term Accumulated Absences £'000	NDR Appeals £'000	Total Short Term £'000
Balance at 1 April 2017	257	152	2,469	2,621
Additional Provisions made during year	-	-	3,703	3,703
Amounts Used during the year	-	-	(3,940)	(3,940)
Amounts reversed as not required	-	-	-	-
Balance at 31 March 2018	<u>257</u>	<u>152</u>	<u>2,232</u>	<u>2,384</u>

Municipal Mutual Insurance Limited (MMI) – MMI was the main local authority insurer for many years up until 1992 when the company failed and went into “run off”. A Scheme of Arrangement was approved in 1994 with the aim of meeting all claims and achieving a solvent run-off. For a number of years the Administration and Creditors Committee reported that a solvent run-off was likely to be achieved and sought to sell the business to another insurer to bring the arrangement to a conclusion.

Unfortunately a sale has never been achieved and more recently claims have emerged where courts have ruled in favour of others rather than MMI. This increased the risk that a solvent run-off would not be achieved which would result in councils (and others, such as housing associations) being liable to clawback of monies paid out to settle claims. Due to this uncertainty, the Council has shown this risk as a Contingent Liability in the Statement of Accounts in recent years

The Accumulated Absences Provision is the opposite of the Accumulated Absences Account included in Unusable Reserves. This absorbs the difference that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March 2018.

NDR Appeals – Business ratepayers can make an appeal against the rateable value attributed to their property by the Valuation Office. Changes brought about by the new Business Rates Retention scheme mean that the Council has to provide for its share of the costs arising from successful appeals.

Note 19. Usable Reserves

Movements in the Authority’s usable reserves are detailed in the Movement in Reserves Statement and note 8.

Note 20 Unusable Reserves

	31/03/17	Movement in Year	31/03/18
	£'000	£'000	£'000
Capital Adjustment Account	(26,567)	527	(26,040)
Revaluation Reserve	(18,649)	1,703	(16,946)
Accumulated Absences Account	152	-	152
Collection Fund Adjustment Account	103	(430)	(327)
Pensions Reserve	97,257	(5,844)	91,413
Deferred Capital Receipts Reserve	(176)	9	(167)
Total Unusable Reserves	52,120	(4,035)	48,085

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

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Capital Adjustment Account

2016/17		2017/18
£'000		£'000
(23,284)	Balance at 1 April	(26,567)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	-
654	Charges for depreciation and impairment of non current assets	717
911	Revaluation Losses on Property, Plant and Equipment	5,771
1,102	Revenue expenditure funded from capital under statute	1,336
-	Deferred Capital Receipts movement	-
	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	149
3,393		149
6,060		7,973
(2,221)	Adjusting Amounts written out of the Revaluation Reserve	(179)
3,839	Net Written out amount of the cost of non current assets consumed in the year	7,794
	Capital Financing applied in the year:	
(4,910)	Use of the Capital Receipts Reserve to finance new capital expenditure	(371)
	Capital Grants and contributions credited to the Comprehensive Income and expenditure statement that have been applied to capital financing	(1,318)
-	- Non-specific capital grant	-
-	- Application of Grants to capital financing from the Capital Grants	-
-	- Unapplied Account	-
(1,610)	Capital Expenditure charged against the General Fund	(4,596)
-	Statutory provision for the repayment of debt	(150)
(7,592)		(6,435)
470	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	(832)
(26,567)	Balance at 31 March	(26,040)

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2016/17			2017/18	
£'000	£'000		£'000	£'000
	(18,347)	Balance at 1 April		(18,649)
(2,920)		Upward Revaluation of Assets	(204)	
397		Downward Revaluation of Assets and impairment losses not charged to Surplus Deficit on the Provision of Services	1,728	
(2,523)	(2,523)	Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on Provision of Services	1,524	1,524
	96	Difference between fair value depreciation and historical cost depreciation		97
	2,125	Accumulated gains on assets sold or scrapped		82
	(18,649)	Balance at 31 March		(16,946)

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2016/17			2017/18
£'000			£'000
152	Balance at 1 April		152
-	Settlement or cancellation of accrual made at the end of previous year		-
-	Amounts accrued at the current year end		-
-	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		-
152	Balance at 31 March		152

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Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and non-domestic rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2016/17 £'000		2017/18 £'000
948	Balance at 1 April	103
	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(430)
(845)		(430)
103	Balance at 31 March	(327)

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2016/17 £'000		2017/18 £'000
62,149	Balance at 1 April	97,257
33,290	Actuarial Gains/(Losses) on pensions assets and liabilities	(9,235)
	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive	
5,015	Income and Expenditure Statement	6,692
(3,197)	Employer's pensions contributions and direct payments to pensioners payable in the year	(3,301)
97,257	Balance at 31 March	91,413

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2016/17 £'000		2017/18 £'000
(183)	Balance at 1 April	(175)
7	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure statement	7
1	Transfer to the Capital receipts reserve upon receipt of cash	1
(175)	Balance at 31 March	(167)

Note 21. Cash Flow Statement – Operating Activities

Adjustments to net surplus or deficit on the provision of services for non-cash movements:

2016/17 £'000		2017/18 £'000
(654)	Depreciation	(717)
(1,380)	Impairment and downward valuations	(4,939)
-	Amortisation	-
143	Increase in impairment provision for bad debts	(128)
(2,063)	(Increase)/Decrease in creditors	(1,577)
968	Increase/(Decrease) in debtors / payments in advance	202
(2)	Increase/(Decrease) in stock	(2)
(1,818)	Pension liability	(3,391)
(3,393)	Carrying amount of non-current assets sold	(149)
(1,915)	Other non-cash items charged to the net surplus or deficit on the provision of services	579
(10,114)	Net cashflows from operating activities	(10,122)

Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

2016/17 £'000		2017/18 £'000
-	Purchase of short-term and long-term investments	-
780	Proceeds from short-term and long-term investments	881
4,678	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	277
5,458		1,158

The cash flows for operating activities include the following items:

2016/17 £'000		2017/18 £'000
(260)	Interest received	(131)
-	Dividends received	-

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Note 22. Cash Flow Statement – Investing Activities

2016/17 £'000		2017/18 £'000
16,136	Purchase of property, plant & equipment, investment property and intangible assets	9,264
-	- Purchase of short term and long term investments	4,987
-	- Other payments for investing activities	
(4,677)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(278)
(2,847)	Proceeds from sale of short-term and long-term investments	(131)
(6)	Other receipts from investing activities	(89)
<u>8,606</u>	Net Cash Flow from Investing activities	<u>13,753</u>

Note 23. Cash Flow Statement – Financing Activities

2016/17 £'000		2017/18 £'000
-	Cash receipts of short and long term borrowing	(5,307)
(666)	Other receipts from financing activities	(2,193)
(7)	Cash receipts for finance leases	(7)
-	Other payments for financing activities	-
<u>(673)</u>	Net Cash Flow from Financing activities	<u>(7,507)</u>

Note 24. Segmental Reporting and Reconciliation to Subjective Analysis

The Council is required to present information on reportable segments. Reporting segments are to be based on an authority's internal management reporting arrangements. The segments are based on Chief Officer responsibilities.

Note 24.a Subjective Reporting by Chief Officer segments

	Communities & Business	Corporate	Environmental & Operations	Finance	Planning	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Chief Officer Income and Expenditure 2016/17						
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Service Income	(285)	(533)	(6,492)	(1,621)	(583)	(9,514)
Grants	(163)	(23)	(632)	(28,072)	(457)	(29,347)
Total Income	(448)	(556)	(7,124)	(29,693)	(1,040)	(38,861)
Employee Expenses	1,038	1,739	3,215	3,125	1,915	11,032
Other Service Expenses	787	1,553	8,496	30,799	558	42,193
Total Expenditure	1,825	3,292	11,711	33,924	2,473	53,225
Net Expenditure	1,377	2,736	4,587	4,231	1,433	14,364
Chief Officer Income and Expenditure 2017/18						
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Service Income	(303)	(557)	(5,482)	(972)	(1,529)	(8,843)
Grants	(421)	(22)	(32)	(27,064)	(35)	(27,574)
Total Income	(724)	(579)	(5,514)	(28,036)	(1,564)	(36,417)
Employee Expenses	1,217	1,922	2,043	1,401	1,843	8,426
Other Service Expenses	971	1,571	8,299	31,006	902	42,749
Total Expenditure	2,188	3,493	10,342	32,407	2,745	51,175
Net Expenditure	1,464	2,914	4,828	4,371	1,181	14,758

Reporting is made to Chief Officers and Members on the above segmental basis.

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Note 24.b Reconciliation of Chief Officer Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

The reconciliation shows how the figures in the analysis of income and expenditure related to the amounts included in the Comprehensive Income and Expenditure Statement.

2016/17		2017/18
£'000		£'000
14,364	Net Expenditure in Chief Officer Analysis	14,758
940	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	6,495
-	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement.	-
<u>15,304</u>	Cost of Services in Comprehensive Income and Expenditure Statement	<u>21,253</u>

Note 24.c Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Chief Officer income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2016/17	Amounts not reported to Chief Officer Analysis		Amounts not included in I&E		Corporate Amounts	Total
	£'000	£'000	£'000	£'000		
Fees, Charges & Other Service Inc.	(9,514)	(975)	-	(10,489)	(258)	(10,747)
Interest Income	-	-	-	-	(259)	(259)
Investment Income	-	-	-	-	(730)	(730)
Disposal of Items of Property Plant & Equipment	-	-	-	-	(1,329)	(1,329)
Income from Council Tax and NDR	-	-	-	-	(15,514)	(15,514)
Government Grants and Contributions	(29,347)	-	-	(29,347)	(3,603)	(32,950)
Capital Grants and Contributions	-	-	-	-	(666)	(666)
Total Income	(38,861)	(975)	-	(39,836)	(22,359)	(62,195)
Employee Expenses	11,032	(362)	-	10,670	2,180	12,850
Other Service Expenses	42,193	1,182	-	43,375	677	44,052
Depreciation, amortisation and Impairment	-	1,068	-	1,068	-	1,068
Interest Payments & similar payments	-	27	-	27	-	27
Precepts & Levies	-	-	-	-	3,818	3,818
Payments to Housing Capital Receipts Pool	-	-	-	-	6	6
Gain or loss on disposal of non current assets	-	-	-	-	47	47
Capital Grants and Contributions	-	-	-	-	-	-
Total Expenditure	53,225	1,915	-	55,140	6,728	61,868
(Surplus) or deficit on the provision of services	14,364	940	-	15,304	(15,631)	(327)

Reconciliation to Subjective Analysis 2017/18	Amounts not reported to Chief Officer		Amounts not included in I&E	Cost of Services	Corporate Amounts	Total
	Analysis	management				
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other Service Inc.	(8,843)	(29)		(8,872)	(220)	(9,092)
Interest Income				-	(188)	(188)
Investment Income				-	(750)	(750)
Disposal of Items of Property Plant & Equipment				-	(126)	(126)
Income from Council Tax and NDR				-	(15,519)	(15,519)
Movement on Fair Value of Investment Property				-	(832)	(832)
Government Grants and Contributions	(27,574)			(27,574)	(3,265)	(30,839)
Capital Grants and Contributions		(1,318)		(1,318)	(2,193)	(3,511)
Total Income	(36,417)	(1,347)	-	(37,764)	(23,093)	(60,857)
Employee Expenses	8,426	1,034		9,460	2,582	12,042
Other Service Expenses	42,749	860		43,609	-	43,609
Depreciation, amortisation and Impairment		5,921		5,921	-	5,921
Interest Payments & similar payments		27		27	58	85
Precepts & Levies				-	4,006	4,006
Payments to Housing Capital Receipts Pool				-	1	1
Gain or loss on disposal of non current assets				-		-
Capital Grants and Contributions				-		-
Total Expenditure	51,175	7,842	-	59,017	6,647	65,664
(Surplus) or deficit on the provision of services	14,758	6,495	-	21,253	(16,446)	4,807

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Note 24.d Expenditure and Income analysed by nature

2016/17 £'000	Expenditure and Income analysed by nature	2017/18 £'000
	Expenditure	
12,850	Employee Benefit Expenses	12,042
44,052	Other Service Expenses	43,609
1,068	Depreciation, amortisation and impairment	5,921
47	Loss on Disposal of non current assets	-
27	Interest payments	85
3,818	Precepts and levies	4,006
6	Payment to Housing Capital Receipts Pool	1
<u>61,868</u>	Total Expenditure	<u>65,664</u>
	Income	
(10,747)	Fees and Charges and other service income	(9,092)
(15,514)	Income from Council Tax and Business Rates	(15,519)
(32,950)	Government Grants and contributions	(30,839)
(989)	Interest and Investment income	(938)
(1,329)	Gain on disposal of non current assets	(127)
-	Movement on Fair Value of Investment Property	(832)
(666)	Capital Grants and Contributions	(3,511)
<u>(62,195)</u>	Total Income	<u>(60,858)</u>
<u>(327)</u>	Net Service cost/income	<u>4,806</u>

Note 24.e Segmental Income and Expenditure

Income and expenditure on a segmental basis						
2016/17	Comm-unities & Business	Corporate Services	Environ-mental & Opnl	Finance	Planning	Total
Expenditure						
Employee Benefit Expenses	1,208	1,784	3,669	3,961	2,228	12,850
Other Service Expenses	1,707	(864)	7,944	28,833	1,940	39,560
Depreciation, amortisation & impairment	92	-	976	-	-	1,068
Interest payments	-	-	-	27	-	27
Total Segmental Expenditure	3,007	920	12,589	32,821	4,168	53,505
Income						
service income	(265)	(376)	(6,517)	(1,310)	(1,017)	(9,485)
Benefits and other Gov. grants	(163)	(23)	-	(28,073)	(456)	(28,715)
Total Segmental Income	(428)	(399)	(6,517)	(29,383)	(1,473)	(38,200)
Net Segmental Expenditure	2,579	521	6,072	3,438	2,695	15,305
Reconciliation to CIES						
Other Income and Expenditure not segmentally reported						(15,631)
Net Service Expenditure						(326)

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Income and expenditure on a segmental basis						
2017/18	Comm-unities & Business	Corporate Services	Environ-mental & Opnl	Finance	Planning	Total
Expenditure						
Employee Benefit Expenses	1,211	2,002	1,981	2,116	2,150	9,460
Other Service Expenses	1,978	(768)	9,426	30,151	2,822	43,609
Depreciation, amortisation & impairment	32	-	5,889	-	-	5,921
Interest payments	-	-	-	27	-	27
Total Segmental Expenditure	3,221	1,234	17,296	32,294	4,972	59,017
Income						
Fees and Charges and other service income	(299)	(506)	(5,402)	(1,136)	(1,529)	(8,872)
Benefits and other Gov. grants	(421)	(22)	(691)	(27,064)	(694)	(28,892)
Total Segmental Income	(720)	(528)	(6,093)	(28,200)	(2,223)	(37,764)
Net Segmental Expenditure	2,501	706	11,203	4,094	2,749	21,253
Reconciliation to CIES						
Other Income and Expenditure not segmentally reported						<u>(16,446)</u>
Net Service Expenditure						<u>4,807</u>

Note 25. Trading Operations

Trading Accounts are operated for Direct Services, which includes two major services, Refuse Collection and Street Cleaning.

The following table sets out the financial trading accounts for 2017/18

(Surplus)/ Deficit 2016/17 £'000		Income £'000	Expend. £'000	(Surplus)/ Deficit 2017/18 £'000
	Direct Services			
(79)	Refuse Collection	(2,496)	2,488	(8)
(11)	Street Cleansing	(1,324)	1,242	(82)
(142)	Other Operational Accounts	(2,207)	2,090	(117)
(25)	Overhead Accounts	(1,287)	1,274	(13)
<u>(257)</u>		<u>(7,314)</u>	<u>7,094</u>	<u>(220)</u>

Other Operational Accounts include vehicle workshop and premises cleaning. Overhead Accounts include transport fleet and depot.

For management accounting purposes, recharges for internal work completed by the trading accounts have been priced to include a capital financing charge. The Code of Practice does not permit charges for cost of capital to be debited to trading accounts. The following table sets out the position if capital charges had been made:

(Surplus) /Deficit 2016/17 £'000		Income £'000	Expend. £'000	(Surplus) /Deficit 2017/18 £'000
	Direct Services			
(43)	Refuse Collection	(2,496)	2,524	28
-	Street Cleansing	(1,324)	1,253	(71)
(133)	Other Operational Accounts	(2,207)	2,100	(107)
(22)	Overhead Accounts	(1,287)	1,277	(10)
<u>(198)</u>		<u>(7,314)</u>	<u>7,154</u>	<u>(160)</u>

Subjective Analysis for the Trading Operation

2016/17 £'000		2017/18 £'000
(1,428)	Revenues from External Customers	(1,432)
(5,742)	Income from Internal Customers	(5,882)
<u>(7,170)</u>	Total Income	<u>(7,314)</u>
3,235	Employee Expenses (inc Agency staff)	3,292
498	Depreciation	567
3,239	Other Service Expenditure	3,295
<u>6,972</u>	Total Expenditure	<u>7,154</u>
<u>(198)</u>	Net Trading Income	<u>(160)</u>

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Note 26. Members' Allowances

The authority paid the following amounts to Members of the Council during the year:

2016/17 £'000		2017/18 £'000
373	Allowances	377
14	Expenses	15
<u>387</u>	Total	<u>392</u>

Note 27. Officers' Remuneration

The remuneration paid to the Authority's senior employees, being the head of Paid Service and those officers reporting directly to him, was as follows:

2016/2017	Salary £	Bonuses £	Expenses £	Com- pen- sation Loss of employ- ment £	Pension £	Other Emol- uments £	Total £
Chief Executive	149,929	3,598	186	-	21,801	1,421	176,935
Chief Housing Officer (part year)	12,333	-	-	398	1,751	-	14,482
Chief Finance Officer	88,830	500	190	-	12,685	-	102,205
Chief Officer Corporate Services	88,830	500	45	-	12,685	-	102,060
Chief Officer Communities and Business	88,830	500	217	-	12,685	-	102,232
Chief Planning Officer	88,830	500	-	-	12,685	-	102,015
Chief Officer Environmental and Operations	88,830	500	209	-	12,685	-	102,224
Chief Officer Legal (part year)	13,534	-	213	439	1,922	-	16,108
Head of Strategy and Transformation	56,940	500	-	-	8,156	-	65,596
Head of Legal and Democratic Services (part year)	43,501	250	10	-	6,213	-	49,974

2017/2018	Salary £	Bonuses £	Expenses £	Com- pen- sation Loss of employ- ment £	Pension £	Other Emol- uments £	Total £
Chief Executive	151,369	3,634	157	-	24,646	6,787	186,593
Chief Finance Officer	91,858	500	151	-	14,685	-	107,194
Chief Officer Corporate Services	91,858	500	87	-	14,685	-	107,130
Chief Officer Communities and Business	91,858	500	172	-	14,685	-	107,215
Chief Planning Officer	91,858	500	-	-	14,685	-	107,043
Chief Officer Environmental and Operations	91,858	500	193	-	14,685	-	107,236
Head of Strategy and Transformation	58,547	500	-	-	9,388	-	68,435
Head of Legal and Democratic Services	59,643	500	64	-	9,563	-	69,770

The Chief Executive receives other payments for being the Deputy Returning Officer at elections.

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Bands		
Number of Employees 2016/17		Number of Employees 2017/18
4	£50,000 - £55,000	3
6	£55,001 - £60,000	8
-	£60,001 - £65,000	1
3	£65,001 - £70,000	-
-	£70,001 - £75,000	1
-	£75,001 - £80,000	-

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the following table:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	16/17	17/18	16/17	17/18	16/17	17/18	16/17	17/18
							£'000	£'000
£0 - £20,000	4	1	-	13	4	14	24	43
£20,001 - £40,000	-	-	-	-	-	-	-	-
£40,001 - £60,000	-	-	-	-	-	-	-	-
£60,001 - £80,000	-	-	-	-	-	-	-	-
£80,001 - £100,000	-	-	-	-	-	-	-	-
Over £100k	-	-	-	-	-	-	-	-
Total	4	1	-	13	4	14	24	43

28. External Audit Fees

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors.

2016/17 £'000		2017/18 £'000
43	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor	43
-	Fees Payable to external auditors in respect of statutory inspections	-
14	Fees payable to external auditors for the certification of grant claims and returns	14
-	Fees payable in respect of other services - provided by external auditors during the year	-
57	Total	57

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Note 29. Grant income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure statement:

2016/17 £'000		2017/18 £'000
	Credited to Taxation and Non Specific Grant Income	
(666)	Community Infrastructure Levy	(2,193)
(2,207)	New Homes Bonus (MHCLG formally DCLG)	(1,756)
(633)	Revenue Support Grant (MHCLG formally DCLG)	-
(605)	S31 Small Business Rate Reduction	(1,235)
-	S31 Discretionary Business Rate Reduction	(142)
(152)	Transitional Grant (MHCLG formally DCLG)	(123)
(6)	S31 Council Tax Family Annexes	(9)
(4,269)	Total	(5,458)
	Credited to Services	
(27,560)	Benefit Subsidy (DWP)	(26,599)
(430)	Community Facility Improvements	(659)
(632)	Better Care Fund (was Disabled Facilities Grant) (KCC)	(647)
(409)	Housing Benefit Administration (DWP)	(381)
-	Flexible Homelessness (MHCLG formally DCLG)	(155)
(105)	New Burdens (MHCLG formally DCLG)	(121)
(121)	Choosing Health PCT (KCC)	(117)
-	Homelessness (MHCLG formally DCLG)	(87)
(31)	Communities against Drugs (KCC)	(31)
(23)	Individual Electoral Registration (CO)	(22)
-	Historic England	(29)
(36)	Other	(45)
(29,347)	Total	(28,893)

The authority receives grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver if conditions are not met. The balances at year-end are as follows:

2016/17 £'000		2017/18 £'000
	Capital Grants Receipts in Advance	
(119)	Better Care Fund (KCC)	(411)
(73)	Community Infrastructure Levy	-
(24)	Regional Housing Pot (KCC/MHCLG formally DCLG)	(12)
<u>(216)</u>	Total	<u>(423)</u>

2016/17 £'000		2017/18 £'000
	Revenue Grants Receipts in Advance	
(4,518)	Section 106 receipts	(6,193)
(68)	Historic England	(39)
<u>(4,586)</u>	Total	<u>(6,232)</u>

Note 30. Related Party Transactions

The Authority is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 24 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2018 are shown in note 29.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in note 26. Returns were obtained from Members in respect of the 2017/18 financial year requesting details of any transactions that had taken place between them or close family members and the Council. For all the organisations listed in the table below the relationship to the organisation was that the member was in a position of general control or management.

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2016-17				2017-18			
Paid to (Supplier)	Received From (Customer)	Balance at 31/03/16	Organisation	Paid to (Supplier)	Received From (Customer)	Balance at 31/03/17	
£'000	£'000	£'000		£'000	£'000	£'000	
2	2	0	New Ash Green Village Association Ltd	2	1	0	
9	1	0	Stag Community Arts Centre	1	1	0	
14	14	0	West Kent Mind	8	12	0	

Other payments were made to the following organisations where members held position of authority or representation

Organisation	2016/17	2017/18
Sevenoaks District Arts Council	4,250	2,500
Sevenoaks District Sports Council	2,500	2,500
Citizens Advice Bureau	98,540	98,540

The Register of Members' Interests is open to public inspection.

Senior Officers

Senior officers of the Council have control over the day to day management of the authority. The Chief Executive and Chief Officers are required to declare any related party transactions. Three officers are Directors of Quercus 7 Limited and the Monitoring Officer is the Company Secretary.

Kent County Council pension fund – see note 35.

Assisted organisations – the Council provided material financial assistance to the following organisation:

Sevenoaks Leisure Limited – management fee of £36,950 (2016/17 £80,950) and a Development Fee of £20,000 (2016/17 £20,000). Two members are Sevenoaks District Council appointed directors of Sevenoaks Leisure Limited. A loan of £250,000 was given to Sevenoaks Leisure Limited to improve the fitness centre at Sevenoaks Leisure Complex. The term of the loan was 10 years, with a redemption date of April 2018 and interest of 7% per year.

Quercus 7 Limited

Council on 31 March 2015 authorised the incorporation of a company and this was incorporated on 31 December 2015 (Quercus7 Limited Number 09933195). Three Chief Officers were appointed as Directors and there are two Non-Executive Directors. The trading activities of the company will be overseen by the Cabinet. The Articles of Association state that there can only be one shareholder and is defined as all the Members of SDC. The liability of the Council is limited to the nominal of its share of £1.

The Company is a controlled company entirely owned by Sevenoaks District Council. The Company shareholder (Members of SDC) has ultimate control over the activities of the Company and the Company's operational matters. The Company will enable the Council to operate property development on a commercial basis as well as allowing the Council to invest in residential property to be leased.

The company has not traded and has no assets and therefore there is no requirement to produce group accounts. Work undertaken by officers on company business will be charged to the company. During the year the company were given credit facilities for business expenses totalling £83,612.

Shared Services

The Authority has a shared service arrangement with Dartford Borough Council to provide various services namely Revenues and Benefits, Audit, and Environmental Health. There is a shared Building Control Service with Tonbridge and Malling. The Licensing Partnership is a shared service with Maidstone, Tunbridge Wells and London Borough of Bexley Councils. The relevant costs to the Council are accounted for within the Comprehensive Income and Expenditure Statement.

Note 31. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the authority that has yet to be financed. The Capital Financing Requirement is analysed in the second part of this note.

2016/17 £'000	2017/18 £'000
- Opening Capital Financing Requirement	(9,642)
Capital Investment:	
6,544 Property, Plant & Equipment	9,062
- Intangible Assets	-
134 Surplus Assets	-
9,459 Investment Properties	202
1,102 Revenue Expenditure Funded from Capital under Statute	1,336
17,239	10,600
Sources of Finance:	
(4,910) Capital Receipts	(371)
(1,072) Government Grants and other contributions	(1,318)
(1,615) Sums set aside from revenue	(4,596)
(7,597)	(6,285)
- MRP for the year	150
(9,642) Closing Capital Financing Requirement	(13,807)

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Note 32 Leases

Operating Leases

Authority as Lessee

In 2014/15 the Council entered into an operating lease for land adjacent to 66 London Road Sevenoaks (the 'Top Car Park'). This lease is for 15 years.

In 2015/16 the Council entered into an operating lease for vending machines for Argyle Road. The lease is for 3 years.

Payments under operating leases for the car park and vending equipment during the year amounted to £41,516 (£31,734 in 2016/17).

31/03/17	31/03/18
£'000 Minimum Lease Payments	£'000
47 Not later than one year	48
192 Later than one year and not later than five years	197
324 Later than five years	273
<u>563</u> Total	<u>518</u>

Authority as Lessor

The council operate a number of properties where it is the Lessor. The future income receivable under non-cancellable leases is detailed below.

31/03/17	31/03/18
£'000	£'000
740 Not later than one year	928
2,949 Later than one year and not later than five years	3,511
1,585 Later than five years	1,287
<u>5,274</u>	<u>5,725</u>

The lease payments receivable do not include rents that are contingent on events taking place after the leases were entered into such as adjustments following rent reviews.

The Council also owns various smaller leases including estate shops and some leisure establishments. The future rentals are not listed here as they are not considered to be material.

Finance Leases

Authority as Lessee

The Council has no finance leases as a lessee.

Authority as Lessor

The Authority has classified one lease it has granted, as a finance lease. This is due to the length of the lease agreement in relation to the asset's useful life at the inception of the lease, and the value of lease payments to asset value. The Authority recognises a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts.

31/03/17 £'000	31/03/18 £'000
251 Gross Investment in the Lease	225
31 Estimated Residual value	31
163 Net Investment in the lease (Gross Investment discounted by implicit rate)	154
88 Unearned Finance Income	71
The gross investment in the lease will be received over the following periods.	
23 Not later than one year	23
116 Later than one year and not later than 5 years	115
112 Later than 5 years	86
<u>251</u> Total	<u>224</u>

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Note 33. Impairment Losses

During 2017/18 there were no impairment losses on the Council's property assets.

Note 34. Termination Benefits

The Authority terminated the contracts of 14 employees in 2017/18, incurring costs of £43,000 (£24,000 in 2016/17) – see note 27 for the number of exit packages and total cost per band.

Note 35. Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these will not actually be payable until the employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

Characteristics of the Defined Benefit Scheme

The Authority participates in the Local Government Pension Scheme, administered by Kent County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Participation in a defined benefit pension scheme means that the Authority is exposed to a number of risks, statutory changes to the scheme, change to inflation, bond yields and the performance of the equity investments held by the scheme.

- Investment risk. The Fund holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long term, the short term volatility can cause additional funding to be required if a deficit emerges.
- Interest Rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities, the value of the assets and liabilities may not move in the same way.
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that assets are not linked to inflation.
- Longevity risk. In the event that the members live longer than assumed, a deficit will emerge in the Fund. There are also other demographic risks.

All the above risks may also benefit the Authority e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

Transactions relating to Post Employment Benefits

The Authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on cash payable in the year, so the real cost of post-employment benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure statement and the General Fund balance via the Movement in Reserves Statement during the year:

2016/17 £'000		2017/18 £'000
Comprehensive Income and Expenditure Statement		
	Cost of Services	
	Service cost comprising:	
2,782	Current Service cost	4,066
5	Past Service costs	-
<u>2,228</u>	Net Interest Expense (includes administration expense)	<u>2,626</u>
<u>5,015</u>	Total post-employment benefits charged to the Surplus or Deficit on the Provision of Services	<u>6,692</u>
Other post employment charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined liability comprising:		
(12,903)	Return on plan assets (excluding the amount included in the net interest expense)	(663)
(217)	Other actuarial (gains)/losses on assets	-
(5,521)	Actuarial (gains) and losses arising on change in demographic assumptions	-
36,646	Actuarial (gains) and losses arising on changes in financial assumptions	(8,572)
<u>15,285</u>	Other	<u>-</u>
<u>33,290</u>	Total post employment benefits charged to the Comprehensive Income and Expenditure statement	<u>(9,235)</u>
Movement in Reserves Statement		
5,015	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefit in accordance with the Accounting Code of Practice	6,692
3,197	Actual Amount charged against the General Fund balance for pensions in the year	3,301
	Employers contributions payable to the scheme	3,301

Pensions Assets and Liabilities recognised in the Balance Sheet

2016/17 £'000		2017/18 £'000
Present value of the Defined Obligations		
(185,220)	Present value of Funded Liabilities	(181,594)
(2,078)	Present Value of Unfunded Liabilities	(1,913)
<u>(187,298)</u>	Total Defined Benefit Obligation	<u>(183,507)</u>
90,041	Fair Value of plan assets (at bid value)	<u>92,094</u>
<u>(97,257)</u>		<u>(91,413)</u>

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Reconciliation of movements in the fair value of scheme assets

2016/17 £'000		2017/18 £'000
74,854	Opening fair value of scheme assets	90,041
2,685	Interest on assets	2,418
12,903	Return on assets less interest	663
217	Other actuarial gains/(losses)	-
(48)	Administration expense	(44)
3,197	Contributions from employer	3,301
687	Contributions from scheme participants	703
(4,454)	Estimated benefits paid plus unfunded net of transfers in	(4,988)
<u>90,041</u>	Closing Value of scheme assets	<u>92,094</u>

Reconciliation of the movements in defined benefit obligation

2016/17 £'000		2017/18 £'000
137,003	Opening Defined Benefit Obligation	187,298
2,782	Current Service Cost	4,066
4,865	Interest Cost	5,000
36,646	Change in Financial Assumptions	(8,572)
(5,521)	Change in Demographic assumptions	-
15,285	Experience loss/(gain) on defined benefit obligation	-
(4,274)	Estimated benefits paid net of transfers in	(4,810)
5	Past service costs including curtailments	-
687	Contributions by scheme participants	703
(180)	Unfunded pension payments	(178)
<u>187,298</u>	Closing Defined Benefit Obligation	<u>183,507</u>

Scheme Assets

The scheme's assets consist of the following categories, by proportion of the total assets held:

31/03/17 %		31/03/18 %
70	Equity investments	66
1	Gilts	1
10	Bonds	10
12	Property	13
3	Cash	3
4	Absolute Return Fund	7
<u>100</u>	Total	<u>100</u>

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Kent County Council Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

2016/17		2017/18
<u>Mortality Assumptions:</u>		
	Longevity at 65 for current pensioners	
23	Men	23
25	Women	25
	Longevity at 65 for future pensioners	
25	Men	
27	Women	25
		28
Financial Assumptions:		
2.7%	Rate of Inflation (CPI)	2.30%
4.2%	Rate of increase in salaries	3.80%
2.7%	Rate of increase in pensions	2.30%
2.7%	Rate for discounting scheme liabilities	2.55%
50%	Take-up of option to convert annual pension into retirement lump sum	50.00%

Barnett Waddingham estimate the duration of Employers liabilities at 19 years.

Return on Assets

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost has been replaced with a single net interest cost, which effectively sets the expected return to the discount rate. The discount rate is the annualised yield at the 18 year point on the Merrill Lynch AA rated corporate bond curve which was chosen by the actuaries to meet the requirements of IAS19 and with consideration of the duration of Employers liabilities.

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Sensitivity Analysis

The estimation of the defined Benefit Obligation is sensitive to actuarial assumptions. The financial impact on the Defined Benefit Obligation in the scheme to variances in those assumptions are given in the following table. These assumptions are based on the present value of the total obligation of £183.5m.

	Increase of 0.1% £'000	Decrease of 0.1% £'000
Adjustment to discount rate		
Present value of total obligation	180,224	186,853
Projected Service Cost	3,712	3,886
Adjustment to long term salary increase		
Present value of total obligation	183,761	183,255
Projected Service Cost	3,798	3,798
Adjustment to pensions increases and deferred revaluation		
Present value of total obligation	186,605	180,465
Projected Service Cost	3,886	3,712
Adjustment to mortality age rating assumptions		
	Increase 1 year	Decrease 1 year
Present value of total obligation	190,685	176,608
Projected Service Cost	3,919	3,681

Projected Pension Expense for the year to 31 March 2018

2016/17 £'000	2017/18 £'000
137,003 Opening Defined Benefit Obligation	187,298
2,782 Current Service Cost	4,066
4,865 Interest Cost	5,000
36,646 Change in Financial Assumptions	(8,572)
(5,521) Change in Demographic assumptions	-
15,285 Experience loss/(gain) on defined benefit obligation	-
(4,274) Estimated benefits paid net of transfers in	(4,810)
5 Past service costs including curtailments	-
687 Contributions by scheme participants	703
(180) Unfunded pension payments	(178)
187,298 Closing Defined Benefit Obligation	<u>183,507</u>

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme, administered by Kent County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Note 36. Contingent Liabilities

Planning

A claim has been made against the Council on an enforcement matter. Proceedings began in 2016/17 but have been stayed until 25th February 2019. The claim is not expected to exceed £285,000 including the litigant's costs. The cost to the Council is limited to 10%.

Note 37. Contingent Assets

The Council transferred the remaining part of its housing stock to Moat Housing Association in 1993. When Shared Ownership Lessees purchase further equitable shares in their property the Council receives the proceeds of purchasing the further share, less certain costs. This contingent asset applies for a period of 30 years commencing in 1993.

Note 38. Heritage Assets

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies for Property, Plant and Equipment as set out in Note 10.

Otford Palace Gatehouse is not held on the balance sheet as the Council considers that obtaining a robust and accurate valuation for this unique and specialist property would be not straightforward and the cost would be disproportionate to the benefit of the user of these accounts.

At present the Council has no other material heritage assets and these are valued for insurance purposes only.

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Note 39. Highway Infrastructure Assets (Transport Infrastructure Assets Code)

The Council owns two roads and some footpaths, however these components do not form a network of Highways Infrastructure Assets and have therefore not been recognised in the balance sheet as Highways assets.

**THE COLLECTION FUND
INCOME AND EXPENDITURE ACCOUNT**

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income and expenditure relating to Council Tax and Non-Domestic Rates on behalf of Central Government, precepting authorities and the Council's own General Fund. The costs of administering collection are accounted for in the General Fund and the Collection Fund balance sheet is incorporated into the Council's consolidated balance sheet.

2016/17			2017/18			
Council Tax £000	NDR £000	Total £000	Note	Council Tax £000	NDR £000	Total £000
<u>Income</u>						
80,725	-	80,725	Billed to Council Tax Payers	1	84,467	84,467
-	36,323	36,323	Income from Business Ratepayers	2		33,503
585	25	610	Reduction in Bad Debts Provision		389	311
-	716	716	Reduction in Provision for Appeals			2,569
-	-	-	Transitional Protection			182
-	3,367	3,367	Reimbursement of previous year's estimated Collection Fund deficit	3		287
81,310	40,431	121,741			84,856	36,852
						121,708
<u>Expenditure</u>						
Precepts & Demands:						
55,426	3,306	58,732	Kent County Council		58,213	3,039
7,439	-	7,439	Police & Crime Commissioner for Kent		7,761	-
3,520	367	3,887	Kent & Medway Fire & Rescue Authority		3,622	338
9,672	14,694	24,366	Sevenoaks District Council		10,013	13,505
3,818	-	3,818	Town & Parish Councils		4,006	-
Business Rates:						
-	18,368	18,368	Payments to Government		-	16,881
-	165	165	Cost of Collection Allowance		-	164
-	31	31	Transitional Protection		-	-
Bad and Doubtful Debts:						
482	-	482	Provision for Non Payment		507	-
-	548	548	Provision for Appeals		-	1,976
449	220	669	Write Offs		80	148
1,968	-	1,968	Contribution towards previous year's estimated Collection Fund surplus	3	-	-
82,774	37,699	120,473			84,202	36,051
						120,253
(1,464)	2,732	1,268	(DEFICIT)/SURPLUS FOR YEAR	3	654	801
						1,455
COLLECTION FUND BALANCE						
1,972	(3,204)	(1,232)	Balance at beginning of year		508	(472)
(1,464)	2,732	1,268	(Deficit)/Surplus for year		654	801
508	(472)	36	BALANCE AT END OF YEAR	4	1,162	329
						1,491

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Note 1 Council Tax

Council tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating 1 April 1991 values for this specific purpose. A different ratio is applied to a small number of properties in band A that have been adapted for use by a disabled person. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Kent County Council, the Police and Crime Commissioner for Kent, Kent & Medway Fire and Rescue Authority and the District Council for the forthcoming year and dividing this by the tax base (i.e. the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of band D dwellings). This gives rise to the basic amount of council tax for a band D property. Taxes for other bands are derived by applying the ratio in the following table to the band D tax.

The tax base for 2017/18 was approved by Cabinet in January 2017 as follows:

Band	2016/17			2017/18		
	Estimated no. of taxable properties	Ratio	Band D equivalent dwellings	Estimated no. of taxable properties	Ratio	Band D equivalent dwellings
A*	2.25	5/9ths	1.30	2.57	5/9ths	1.40
A	960.71	6/9ths	640.50	995.68	6/9ths	663.80
B	1,861.46	7/9ths	1,447.80	1,916.90	7/9ths	1,490.90
C	8,063.46	8/9ths	7,167.50	8,246.78	8/9ths	7,330.50
D	9,770.01	9/9ths	9,770.00	9,843.80	9/9ths	9,843.80
E	6,544.57	11/9ths	7,998.90	6,585.23	11/9ths	8,048.60
F	5,347.87	13/9ths	7,724.70	5,399.29	13/9ths	7,799.00
G	7,117.77	15/9ths	11,863.00	7,124.89	15/9ths	11,874.80
H	1,281.49	18/9ths	2,563.00	1,305.69	18/9ths	2,611.40
	<u>40,949.59</u>		<u>49,176.70</u>	<u>41,420.83</u>		<u>49,664.20</u>
Contributions in lieu for Crown property			13.40			16.00
			<u>49,190.10</u>			<u>49,680.20</u>
Collection rate adjustment			99.40%			99.40%
Council Tax Base			<u>48,895.68</u>			<u>49,382.42</u>

The tax rate for a band D property in 2017/18 was £1,612.09, excluding Town and Parish Council taxes (2016/17 = £1,555.52).

	2016/17	2017/18
	£	£
Kent County Council	1,133.55	1,178.82
Police & Crime Commissioner for Kent	152.15	157.15
Kent & Medway Fire & Rescue Authority	72.00	73.35
Sevenoaks District Council	197.82	202.77
	<u>1,555.52</u>	<u>1,612.09</u>
Town & Parish Councils (Average)	78.08	81.13
TOTAL (including an average town & parish rate)	<u>1,633.60</u>	<u>1,693.22</u>

Note 2 Non-Domestic Rates (NDR)

In 2013/14, the administration of NDR changed following the introduction of a business rates retention scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NDR to the central pool, local authorities retain a proportion of the total collectable rates due. In the case of Sevenoaks the local share is 40%. The remainder is distributed to precepting authorities and in the case of Sevenoaks these are Central Government (50%), Kent County Council (9%) and Kent & Medway Fire & Rescue Authority (1%). When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top ups to those authorities who do not achieve their targeted baseline funding.

According to the rating list, the total non-domestic rateable value at 31 March 2018 was £94,102,418 (31 March 2017 = £88,552,764). A revaluation of all non-domestic properties took effect from 1 April 2017.

Note 3 Contributions to Collection Fund surpluses and deficits

In January each year the Council must estimate the amount of the surplus or deficit expected to arise on the Collection Fund for the coming 31 March in respect of council tax and, from the financial year 2013/14 onwards, in respect of NDR. The estimated surplus or deficit is then shared between Kent County Council, the Police and Crime Commissioner for Kent, Kent & Medway Fire & Rescue Authority, Central Government and the District Council as appropriate.

In January 2017, the estimated balance at 31 March 2017 in respect of council tax transactions was zero. Had there been an estimated surplus or deficit, it would have been shared between Kent County Council, the Police and Crime Commissioner for Kent, Kent & Medway Fire & Rescue Authority and the District Council in proportion to their precepts on the Collection Fund in 2016/17 and taken into account by the respective authorities in the calculation of their council taxes for 2017/18. The actual position at 31 March 2017 was a surplus of approximately £508,000.

The actual surplus of £1,162,000 at 31 March 2018 in respect of council tax and the actual surplus of £329,000 in respect of NDR will be taken into account when estimating the surplus or deficit for 2018/19.

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Note 4 Allocation of arrears, prepayments and other balances

Each of the bodies share of the arrears, pre-payments/refunds and other balances for both council tax and NDR is shown in the table below.

		KCC	PCC	KMFRA	Gov't	SDC	Total
		£000	£000	£000	£000	£000	£000
2016/17	Council Tax:						
	Arrears	2,690	358	167	-	648	3,863
	Provision for Bad Debts	(1,293)	(172)	(80)	-	(312)	(1,857)
	Prepayments & Refunds	(1,713)	(228)	(107)	-	(412)	(2,460)
	Cash	669	89	42	-	161	961
	(Surplus)/Deficit	(354)	(47)	(22)	-	(85)	(508)
	NDR:						-
	Arrears	157	-	17	868	695	1,737
	Provision for Bad Debts	(71)	-	(8)	(393)	(315)	(787)
	Provision for Appeals	(555)	-	(62)	(3,086)	(2,469)	(6,172)
	Prepayments & Refunds	(136)	-	(15)	(758)	(606)	(1,515)
	Cash	563	-	63	3,133	2,506	6,265
	(Surplus)/Deficit	42	-	5	236	189	472
Total	-	-	-	-	-	-	
2017/18	Council Tax:						
	Arrears	3,204	438	196	-	760	4,598
	Provision for Bad Debts	(1,376)	(188)	(84)	-	(327)	(1,975)
	Prepayments & Refunds	(1,815)	(248)	(111)	-	(430)	(2,604)
	Cash	796	105	50	-	193	1,144
	(Surplus)/Deficit	(809)	(107)	(51)	-	(196)	(1,163)
	NDR:						-
	Arrears	157	-	17	873	698	1,745
	Provision for Bad Debts	(43)	-	(5)	(238)	(190)	(476)
	Provision for Appeals	(502)	-	(56)	(2,789)	(2,232)	(5,579)
	Prepayments & Refunds	(181)	-	(20)	(1,005)	(804)	(2,010)
	Cash	599	-	67	3,323	2,660	6,649
	(Surplus)/Deficit	(30)	-	(3)	(164)	(132)	(329)
Total	-	-	-	-	-	-	

GLOSSARY OF TERMS

Most terms are explained within the “Explanatory Foreword” and “Statement of Accounting Policies” sections of the accounts

Accounting Period. The period of time covered by the accounts, normally 12 months starting on 1st April for Local Authority accounts.

Accrual. Item relating to, and accounted for in, one accounting period but actually paid in another.

Actual. The final amount of expenditure or income which is recorded in the Council’s accounts.

Agency and Contracted Services. Services purchased from another public body or external organisation and subject to a contract. Includes the services provided by Direct Services.

Assets Held for Sale Where there is reasonable certainty that an item of property, plant or equipment is likely to be disposed of via a sale in the next twelve months.

Budget. A statement of the Council’s plans for net revenue and capital expenditure over a specified period of time.

Budget Requirement. Broadly the authority’s estimated net revenue expenditure after allowing for movement in reserves and the addition of parish precepts, to be met from revenue support grant, retained non-domestic rates and council tax income.

Business Rate Retention Scheme A scheme introduced in April 2013 under which billing authorities are able to retain a proportion of the business rates they collect.

Capital Expenditure. The acquisition, construction, enhancement or replacement of tangible fixed assets (i.e. land, buildings, structures etc.), the acquisition of investments and the making of grants, advances or other financial assistance towards expenditure by other persons on tangible fixed assets or investments.

Capital Financing Requirement. The difference between Capital Expenditure and the resources available to finance such expenditure from grants/contributions, capital receipts or revenue funds. This indicates the fundamental requirement to borrow.

Capital Programme. The capital projects the Council proposes to undertake over a set period of time.

Capital Receipts. Money obtained on the sale of a capital asset.

Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (The Code)
This specifies the principles and practices of accounting required to prepare a Statement of Accounts which represents a ‘true and fair view’ of the financial position and transactions of the Council.

CIPFA Chartered Institute of Public Finance and Accountancy

Collection Fund. The fund into which council tax and non-domestic rates are paid, and from which we meet demands by preceptors and central government.

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Contingent Liabilities. Contingent liabilities are either:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation's control, or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that a transfer of economic benefits will be required to settle the obligation, or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core. Costs involved in corporate policy making, representing local interests (including civic ceremonials), support to elected bodies and duties arising from public accountability.

Cost Centre. An individual unit to which items of income or expenditure are charged for managerial or control purposes.

Council Tax. A local tax set by Councils to help pay for local services. There is one bill per dwelling based on its relative value compared to others in the area. There are discounts, including where only one adult lives in the dwelling. Bills will also be reduced for properties with people on low incomes, some people with disabilities and some other special cases.

Council Tax Base. The measure of the taxable capacity of an area. It represents the estimated full year equivalent number of chargeable dwellings in an area, expressed as the equivalent number of band D dwellings, after allowing for disabled reduction (relief) and discounts, adjusted for an allowance for non-collection.

Creditors. People or organisations from whom we have received goods or services and as a consequence owe money.

Current Liabilities Those amounts which will become payable or could be called upon within the next accounting period e.g. creditors and cash overdrawn.

Debtors. People or organisations who owe money to the Council.

Deferred Capital Receipts. Capital Receipts which will accrue in the future, such as mortgage repayments.

Depreciation. A charge to a revenue account to reflect the reduction in the useful economic life of a fixed asset.

DfT. Department for Transport.

DWP. Department for Work and Pensions.

Employee Costs. This includes the full costs of employees including salaries, employer's contributions to national insurance and superannuation, and the costs of leased cars.

Events after the Reporting Period The occurrence of a material event between the balance sheet date and the date the accounts are authorised for issue, which might have a bearing on the financial results of the organisation. In such cases the event should be reflected in the Statement of Accounts as a note or amendment.

Fees and Charges. In addition to income from council tax payers, business ratepayers and the government, local authorities charge for some services, e.g. local land charge searches and car parking.

General Fund. The main revenue fund of the Council from which payments are made to provide services and into which receipts are paid, including the District Council's share of council tax and non-domestic rates income.

Government Grants. Payments by government towards either the revenue or capital cost of local authority services. These may be either in respect of particular services called specific grants, e.g. housing benefits, or in aid of local services generally, e.g. revenue support grant.

Heritage Assets. Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities held and maintained principally for their contribution to knowledge and culture.

Impairment. A downward revaluation of an asset.

KCC. Kent County Council.

KMFRA Kent and Medway Fire and Rescue Authority

LASAAC Local Authority (Scotland) Accounts Advisory Committee An organisation that jointly with CIPFA forms the Local Authority Code Board. This board is responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom

Leasing. A method of financing the acquisition of equipment, vehicles etc. The items concerned do not belong to the user (or lessee) but are the property of the lessor to whom the lessee pays an annual rental for a specific period of time.

MBC. Maidstone Borough Council.

MHCLG. Ministry of Housing, Communities and Local Government (formerly DCLG)

Non-Domestic Rate (NDR). Non-domestic rates are levied on business properties based on the rateable value of the property multiplied by a rate in the pound set nationally by the Government. Local authorities retain a proportion of the total collectable rates. In the case of Sevenoaks, the District Council retains 40%, Kent County Council 9% and Kent & Medway Fire & Rescue Authority 1%. The other 50% is passed to Central Government.

PCC Police and Crime Commissioner

Prior year adjustments Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal corrections or adjustments of accounting estimates made in prior years.

Precept. The demand on the collection fund by one authority (e.g. Kent County Council) which is collected from the council tax payer by another (e.g. Sevenoaks). Precepts on Sevenoaks are also made by the Police and Crime Commissioner for Kent, Kent & Medway Fire & Rescue Authority, plus Town and Parish Councils in the District.

Premises Expenses. Includes expenditure on repairs, buildings, grounds and plant maintenance, energy, rents, rates, water services and cleaning of council buildings.

Provisions. Funds to provide for liabilities or losses which are known obligations, but are uncertain as to amounts or dates.

Recharges. The transfer of costs from one account to another.

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REFCUS (Revenue Expenditure Funded from Capital Under Statute) Expenditure which legislation classifies as capital but which does not result in the creation of a fixed asset belonging to the authority. An example is where the Council pays a grant to a private householder for adaptations required by a person with disabilities; the work done is capital in nature, but the resultant asset does not appear on the Council's balance sheet because it belongs to the private householder. These were previously defined as deferred charges.

Related Party Transactions The transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Reserves. The general capital and revenue balances of the Council. There are two types of reserves which might be described as either available or not available to finance expenditure. Revenue reserves which result from monies being set aside, surpluses or delayed expenditure can be spent or earmarked at the discretion of the Council. The usable capital receipts reserve is also available to the extent allowed for by statute. However, other capital reserves are not available to meet expenditure, e.g. the reserves brought about by the capital accounting requirements namely the capital adjustment account and the revaluation reserve.

Revenue Expenditure. Expenditure to meet the continuing cost of services including wages and salaries, purchase of materials and financing charges on capital expenditure.

Revenue Support Grant (RSG). The general Government grant to local authorities. It is payable to all local authorities in support of expenditure in their area.

Revised Estimates. The approved estimates for the current year as amended e.g. by supplementary estimates and virement.

SDC Sevenoaks District Council

Specific Grant. Government grant for specific purposes. The Authority does not have the power to apply such grants for other purposes

Supplies and Services. Includes expenditure on equipment and materials.

Support Services. The charges made by central functions for the services they provide to other departments. These are services which support the provision of services to the public, other support services and the corporate and democratic core. This includes the provision of accommodation, IT, administrative items purchased centrally, (e.g. telephones, stationery and bank charges), central professional services (Human Resources, Legal and Property, and Finance support) and the cost of providing some centrally provided services e.g. post distribution and contact centre.

Transfer Payments. Payments to other bodies where no goods or services are received in return e.g. Housing Benefit grants.

TMBC. Tonbridge and Malling Borough Council

TWBC. Tunbridge Wells Borough Council.

Valuation Bands. To calculate the relative value of dwellings for council tax purposes each dwelling is placed on a valuation list in one of eight bands ranging from A to H. Within a local area, the Council tax will vary between the different bands according to proportions laid down by law. The bands are based on property values as at April 1991.

Band	Value	Proportion
A	Up to £40,000	6/9
B	Over £40,000 and up to £52,000	7/9
C	Over £52,000 and up to £68,000	8/9
D	Over £68,000 and up to £88,000	9/9
E	Over £88,000 and up to £120,000	11/9
F	Over £120,000 and up to £160,000	13/9
G	Over £160,000 and up to £320,000	15/9
H	Over £320,000	18/9

Virement A transfer of budget provision from one budget to another.

ANNUAL GOVERNANCE STATEMENT 2017/18

1. Background

1.1 Further to the Accounts and Audit (England) Regulations 2015, the Council is required to produce an Annual Governance Statement (to be published with its financial statements) which sets out its arrangements for delivering good governance within the framework of sound internal controls.

1.2 The Annual Governance Statement (AGS) is a corporate document involving a variety of people charged with developing and delivering good governance including:

- the Leader of the Council and the Chief Executive (Head of Paid Service) as signatories;
- Chief Officers, Heads of Service and relevant managers assigned with the ownership of risks and the delivery of services;
- the Chief Finance Officer who is responsible for the administration of the Council's financial affairs under Section 151 of the Local Government Act 1972;
- the Monitoring Officer in meeting statutory responsibilities of ensuring the legality of Council business;
- the Council's Internal Audit function;
- Members (for example, through the committees such as the Governance, Audit, Scrutiny and the Policy and Performance Advisory Committees); and
- others responsible for providing assurance, in particular Grant Thornton, in their role as the Council's External Auditor.

1.3 Thus the AGS, as a corporate document, is owned by all Senior Officers and Members of the Council. A shared approach was taken in compiling the AGS with the objective of engaging all managers integrally involved in the delivery of services covering the whole authority within the process and also encouraging a high degree of reflection and corporate learning. This increases the statement's significance and encourages managers to objectively assess their responsibilities.

1.4 The system of corporate governance highlighted in the AGS, together with the system of internal control, is reviewed continually throughout the year as part of routine governance and managerial processes; examples being the authority's performance management and risk management frameworks.

1.5 Although corporately owned, the AGS requires internal control assessments/assurance statements from individual Heads of Service and relevant managers, Chief Officers, the Internal Audit Manager, the Head of Paid Service,

the Monitoring Officer and the Section 151 Officer, all of which were obtained as part of this process.

2. Scope of Responsibility

2.1 Sevenoaks District Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law, proper standards, good governance and that public money is safeguarded from waste, extravagance or misappropriation. The Council seeks to ensure that its expenditure and activities are transparent and properly accounted for. The Council has a duty under the Local Government Act 1999 to make proper arrangements to secure continuous improvement in the way in which it carries out its functions, having regard to ensuring economy, efficiency, effectiveness and fairness in the exercise of its responsibilities. In discharging this overall responsibility, to ensure its business is conducted in accordance with the law, proper standards and delivering continuous improvements, Sevenoaks District Council is also responsible for ensuring that there is a system of corporate governance which facilitates the effective and principled exercise of the Council's functions and which includes arrangements for the effective management of risk. The Council seeks to conduct these responsibilities within the framework of high quality service provision to enhance and facilitate community wellbeing and engagement.

2.2 The roles of the Chief Executive (as Head of Paid Service), the Section 151 Officer and the Monitoring Officer are defined within Part 13 of the Council's Constitution. The Executive Role of Members is defined within Part 4 of the Council's Constitution.

2.3 Officers and Members are expected to conduct themselves in a proper manner in accordance with the Constitution and both are expected to declare interests that may impact on the objectivity of the Council's decision making process. These interests are held on a register and are reviewed on a regular basis by the Monitoring Officer.

2.4 Sevenoaks District Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government. A copy of the code can be obtained from the Internal Audit Team, or via the Council's website. This statement explains how Sevenoaks District Council has implemented both the code and the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement. This was last adopted by the Audit Committee on 26 September 2017.

3. The Purpose of the Governance Framework

3.1 The governance framework comprises the systems and processes, culture and values, by which the Council informs, directs, manages and monitors its operations, and its activities through which it accounts to, engages with and empowers the community. It enables the authority to evaluate the achievement of

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its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. It also seeks to maximise available opportunities in achieving good value for money delivering its objectives and priorities.

3.3 The governance framework has been in place at Sevenoaks District Council for the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts.

4. The Governance Framework

4.1 The following represent the key elements of the Council's governance framework:

- The Council's vision and promises for the period ending in March 2018 were set out in its Corporate Plan, which was revised and updated in November 2013. The Corporate Plan sets out the actions that the Council has committed to undertake to deliver on its promises with progress against these reviewed annually. The Sevenoaks District Community Plan covers the period from 2013-28. Every three years the Community Plan is comprehensively reviewed in consultation with residents and other interested stakeholders. A three-year action plan is agreed with partners at each review point, with the action plan covering the period from 2016 to 2019. Progress against each of the actions is reviewed quarterly with an Annual Report produced each year.
- Both of the existing plans above are subject to considerable Member review and challenge by Cabinet, or the appropriate Advisory/Scrutiny Committee and ultimately by the full Council. The governance arrangements put in place on 14 May 2013, continued to operate well during the year. The arrangements include an Audit Committee, whose terms of reference is consistent with CIPFA standards. The promises and priorities within the plans are also cascaded to individuals within the Council through Service Plans and individual action plans via the staff appraisal process.
- Policy and decision-making is facilitated through reports from Officers to Cabinet and Council. Each Cabinet Member has responsibility for a specific portfolio and will take decisions on matters relevant to that portfolio. Each portfolio also has an Advisory Committee, which will consider officer reports

in advance of them being considered by Cabinet and provide their recommendations on the policy direction or decision making of the Cabinet or Council. The Scrutiny Committee has the opportunity to 'call-in' the decisions of Cabinet and to recommend changes to decisions or policies.

- The Council's Constitution specifies the roles and responsibilities of Members and Officers and the financial and procedural rules for the efficient and effective discharge of the Council's business.
- Implementation of established policies, procedures, laws and regulations and good practice is achieved through:

a) Internal Audit

During 2017-18, the Council's internal audit team worked to an approved annual audit plan and undertook the work in accordance with the Public Sector Internal Audit Standards (PSIAS).

Individual audit reports are produced for relevant management, with copies distributed to the Chief Executive, Section 151 Officer and the relevant Chief Officers. Internal audit reports on the progress of internal audit in delivering the assurance plan are also distributed to the Audit Committee. Periodic reports highlight the results of individual risk-based audit reviews, while the annual report, which contains the Audit Manager's overall assurance opinion, evaluates the overall internal control environment as tested through audit work undertaken in the year.

The review of the effectiveness of Internal Audit was assessed in 2016/17 and it was concluded that the Council had an adequate and effective Internal Audit service that contributes towards the proper, economic and effective use of resources in achieving its objective. The effectiveness of the Internal Audit function is due to be assessed in June 2018 and the conclusion of this assessment will be presented to the Audit Committee in July 2018.

b) External Audit

The external audit service is provided by Grant Thornton. The External Auditor's reports are sent to senior management and Members (via the Audit Committee). Recommendations and comments are considered and discussed with timely actions taken to address agreed recommendations.

Unqualified opinions were issued in relation to both financial statements and value for money for 2016-17.

c) Financial Management

The Section 151 Officer is required to give Members an opinion on the robustness of the budget estimates and the adequacy of reserves. Assurance on these factors is included in the Annual Budget Report to Council.

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A robust budgetary control system is in place and regular monitoring reports are produced for the Strategic Management Team, Heads of Service and relevant managers, Cabinet and the Finance Advisory Committee. The Finance Team conduct monthly client liaison meetings with responsible budget holders.

d) Performance Management

Monitoring of progress towards the achievement of the Council's promises and objectives is undertaken through the Council's performance management system. Performance is monitored monthly and enhanced with commentaries from Heads of Service and Managers where performance is behind target. Strategic information is regularly reported to the Strategic Management Team, Cabinet, Scrutiny Committee and Advisory Committees.

e) Arrangements for Partnerships

The Council enhances value for money in service delivery through innovative and cost-effective partnership working. The Council engages in extensive discussion and planning to develop efficient working arrangements while protecting quality of services. Decisions to enter into partnership working are supported by a detailed business case and cost-benefit analysis, and are subject to scrutiny and approval by Members. The Council has partnerships in place for the delivery of services including Licensing, Revenues and Benefits, Internal Audit, Environmental Health and Building Control.

f) Risk Management

The Council's risk management processes are reviewed by the Officers Risk Management Group and reported to the Audit Committee as appropriate.

Strategic risk is aligned to corporate priorities and reports are produced for Strategic Management Team and the Audit Committee.

g) Relationships and Ethics

Good co-operative relationships exist between the Council and its external auditors and inspectors, and between Officers and Members. Relationships between Officers and Members are guided by a protocol embedded in the Council's Constitution. A written communications protocol has also been established between the Leader and the Chief Executive. The Council has clear Codes of Conduct for Members and Officers embedded within its Constitution, underpinned by a culture of integrity and ethical behaviour. Member conduct is scrutinised by the Standards Committee.

h) Service Delivery by Trained and Experienced People

The Council has a robust recruitment policy and relevant procedures in place. The Council holds Platinum status in the Investors in People (IIP) scheme, conferred by an external inspection regime in January 2016. The Council was the first local

authority nationally to achieve this standard. Staff appraisals take place annually, including an annual review of service and training plans, training evaluation and recruitment and selection procedures. The Council has designed, delivered and developed bespoke training courses. Firstly the 'Leadership Masterclass', a programme for Managers of all levels within the organisation. Secondly, 'Personal Best' which was available to all staff and aimed to help them identify and achieve personal breakthrough goals. Thirdly, 'Talent in Me', which is available to all staff and consists of over 60 bite-sized courses.

i) Monitoring Officer

The Council's Monitoring Officer oversees compliance with laws and statutory obligations. The Monitoring Officer reports to the Council's Standards Committee.

j) Anti-Fraud and Corruption

The Council has an Anti-Fraud and Corruption Strategy and a Whistle Blowing Policy. The Council also has a Counter Fraud Team and a 'fraud hotline', available to both staff and members of the public, which allows individuals to report anonymously any suspected cases of fraud and corruption. As part of fraud risk management, all staff and Members are required to complete annual declarations of interests. The risks of fraud and corruption are assessed within the strategic risk register and appropriate measures put in place to mitigate these risks.

5. Role of the Section 151 Officer

5.1 Section 151 of the Local Government Act 1972 requires that the Council appoint an individual officer to be responsible and accountable for the administration of its financial affairs. The Scheme of Delegation held within Part 13 of Sevenoaks District Council's Constitution assigned this responsibility to the Chief Finance Officer during 2017/18.

5.2 CIPFA has issued a Statement on the Role of the Chief Financial Officer in Local Government. This details the governance arrangements and delegated responsibilities considered necessary to facilitate the role of the Section 151 Officer. The Council has considered this Statement, and believes that, during the financial year 2017/18, it has complied fully with the governance requirements of the Statement. The Council's Financial Procedure Rules, codified within Appendices D and E of the Constitution ensure that all the appropriate responsibilities are delegated and reserved to the Section 151 Officer as the Statement recommends.

6. Review of Effectiveness

6.1 Sevenoaks District Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by the outcome of the work of the Council's internal auditors during the

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year and by Chief Officers who have responsibility for the development and maintenance of the internal control environment. It also considers comments made by the external auditors and other external review agencies and inspectorates.

6.2 The External Auditor concluded that, for 2016/17, the Council had effective arrangements in place to ensure value for money was achieved. An unqualified opinion was issued in relation to the Council's financial statements. The Council is not aware of any issues arising from the current work being undertaken by the External Auditor.

6.3 Internal audit reports are regularly distributed to the Audit Committee and an Annual Internal Audit Report presented to the Council's Audit Committee, which sets out the acting, Audit Risk and Anti-Fraud Manager's overall opinion on the Council's internal control, risk management and governance arrangement. The interim opinion for 2017/18 indicates that the Council's control environment is effective.

6.4 The Head of Paid Service and Section 151 Officer and the Monitoring Officer periodically review the Constitution, procedures for internal financial control and application of the relevant Codes of Conduct.

6.5 There were no significant governance issues raised in last year's AGS.

6.6 It should be noted that no significant governance issues have been raised through the AGS process and no areas were identified for further enhancement.

Certification

Signed:

Signed:

Dr. Pav Ramewal

Cllr Peter Fleming

Chief Executive

Leader of the Council

Date:

Date:

COUNTER FRAUD & COMPLIANCE TEAM REPORT 2017/18

Audit Committee - 19 July 2018

Report of Chief Finance Officer

Status: For Consideration

Key Decision: No

This report supports the Key Aim of Effective Delivery of the Corporate Plan

Portfolio Holder Cllr. Scholey

Contact Officer(s) Adrian Rowbotham, Ext.7153, Glen Moore Ext. 7471.

Recommendation to Audit Committee:

That Members note the work of the Counter Fraud & Compliance Team carried out during the year ended 31 March 2018.

Reason for recommendation: The Audit Committee is required to review the work of the Counter Fraud & Compliance Team.

Introduction and Background

1. The first promise within Sevenoaks District Council's Corporate Plan is to provide value for money. This means keeping costs low whilst delivering the services that people want at the best quality.
2. Local authorities collect Council Tax and Business Rates from local residents/businesses in order to pay for local services. The Council is determined to maximise the revenue from these local taxes as they support local services, but balance this by supporting the most vulnerable groups by allowing discounts, reliefs and allowances to those people who are entitled to receive them.
3. The Counter Fraud & Compliance Team has been specifically located with the Council's Revenues and Benefits Department so that an additional level of protection is introduced within its Council Tax and Business Rates collection sections.

Summary of Key Issues in the Report

4. An overall summary of the work conducted by the Counter Fraud & Compliance Team during 2017/18.

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5. A breakdown of the successes achieved by the Counter Fraud & Compliance Team during the period April 2017 to March 2018.
6. A summary of future plans for 2018/19.

Key Implications

Financial

Not applicable.

Legal Implications and Risk Assessment Statement.

The Council is required to have effective anti-fraud arrangements in place in order to safeguard public funds and prevent the pursuance of crime. The Counter Fraud & Compliance Team will contribute towards the council's fraud prevention initiatives.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users

Conclusions

This report sets out the work conducted by the Counter Fraud & Compliance Team during 2017/18. Members are requested to note the report and the plans for the future.

Appendices

Appendix A - Counter Fraud & Compliance Team
End of Year Report 2017/18.

Background Papers:

None.

Adrian Rowbotham
Chief Finance Officer

Counter Fraud & Compliance Team 2017/18 – End of Year Report

1. Introduction

This report is to update the Audit Committee on the work undertaken by the Counter Fraud & Compliance Team for the year ending 31 March 2018.

2. Background

The work of the Counter Fraud & Compliance Team mainly falls into one of three categories - prevention, detection and investigation.

Prevention

The Counter Fraud & Compliance Team has forged close working relationships with colleagues within Council Tax, Benefits, Business Rates and Housing to prevent erroneous claims and allowances being paid or persons receiving support that they do not qualify for.

Investigation officers vet requests for back-dated Council Tax Single Person discounts and assist with the verification of evidence received in respect of new and changes in circumstances in respect of Housing Benefit & Council Tax Support claims.

Detection

The Counter Fraud Manager co-ordinates Sevenoaks District Council's participation in the National Fraud Initiative exercise (NFI). This national wide exercise, led by the Cabinet Office, matches data from hundreds of sources with the intention of discovering fraud and error in local authority databases. Dartford BC takes activities such as this very seriously and takes part in all of the government run anti-fraud initiatives.

Sevenoaks District Council has invested in the latest credit reference matching software to highlight potential discrepancies within the information we hold on our local residents. This investment has been repaid back many times over through the incorrect claims and allowances it has allowed to be highlighted.

Sevenoaks District Council has joined with the other Kent local authorities to create a data-matching group with the objective of finding fraud and error in local authority databases.

Investigation

The officers within the Counter Fraud & Compliance Team are trained investigators with many years of local authority experience. Every £1 of tax payers money is precious and hundreds of investigations are conducted every year into potential abuses of the public purse. Members of the general public can report fraud suspicions to the Council's fraud hotline (01732 227299) and officers will take the appropriate action to the information received.

3. Successes

Most of the successes achieved by the Counter Fraud & Compliance Team are tangible and a monetary figure can be apportioned to them (see tables below):

	Monetary Savings	Projected Additional Tax Payer Loss (if the irregularity had not been discovered)					
		1 Month	2 months	3 months	6 months	12 months	24 months
Council Tax Single Person Discounts/ Council Tax Reduction Claims	£99,050	£5,778	£11,556	£17,334	£34,668	£69,336	£138,672
Council Tax Exemptions	£20,355	£978	£1,956	£2,934	£5,868	£11,736	£23,472
Totals	£119,405	£6,756	£13,512	£20,268	£40,536	£81,072	£162,144

The Counter Fraud & Compliance Team keeps comprehensive records on all cases reviewed. This allows the team to accurately work out money it saves. The table above shows the need for urgent attention as after just 1 month the tax payer would have lost a further £6,756.

The team’s work also impacts on Housing claims, the table below shows the saving to the public pursue:

	Value of Adjustment
£ of HB claims Removed after review	£113,059

4. Cost Benefit Analysis 2017/18

	Total £	SDC Counter Fraud & Compliance £	
Expenditure:			
Gross Expenditure - Partnership with DBC	204,146	102,073	Costs of the Counter Fraud & Compliance Team are split 50:50 with Dartford BC.
External contributions from Major Preceptors	(124,332)	(62,166)	From Kent CC, Kent Fire & Rescue as they are major beneficiaries
Net Expenditure - Partnership with DBC	79,814	39,907	
Fraud discovered:			
Council Tax Discounts/Council Tax Reductions	(99,050)	(11,886)	SDC receive 12%
Council Tax Exemptions	(20,355)	(2,443)	SDC receive 12%
Housing Benefit Overpayments	(113,059)	(45,224)	SDC receive additional subsidy of 40% of overpayments discovered
Future savings/Deterrent Factor		(4,864)	Assume a 26 week future benefit element of which SDC receives 12 %. See (a) below.
Uncollected Estimate (HB)		13,567	Assume 30%. See (b) below.
Uncollected estimate (Council Tax)		100	Assume 0.7% as Council Tax collection rate is 99.3%
Net Position		(10,843)	

- (a) External funding organisations allow us to record a 26 week future benefit element. This is an assumption that the fraud/error would have continued for an average of 26 weeks after the intervention of the Fraud & Compliance Team. See first table in section 3 of this report.
- (b) We are assuming a non recovery rate of 30% in HB overpayments and 0.7% in Council Tax related savings.

5. Future Developments

The Counter Fraud & Compliance Team is working closely with colleagues in the Business Rates Collection Section to eradicate false and erroneous claims for Small Business Rates Relief (SBRR).

The authority has recently invested funds into a data-matching facility which identifies companies which are falsely claiming SBRR. The exercise has only recently commenced but is already proving a great success.

The Department for Work & Pensions has made a proposal to re-commence joint working on cases involving potentially fraudulent joint claims for welfare benefits and Council Tax. Sevenoaks District Council is keen to re-start this anti-fraud work as it allows all different types of fraud committed by the same person to be investigated under one investigation. Work within this area is hoped to re-commence later this year.

**ANNUAL SELF-ASSESSMENT REVIEW OF THE EFFECTIVENESS OF THE INTERNAL
AUDIT SERVICE 2017/18**

Audit Committee - 19 July 2018

Report of: Chief Finance Officer

Status: For Consideration

Key Decision: No

**This report supports the Key Aim of Effective Management of Council
Resources**

Portfolio Holder Cllr. John Scholey

Contact Officer Adrian Rowbotham, Ext. 7153

Recommendation to Audit Committee: That Members note the conclusion of the Annual Self-Assessment Review of the Effectiveness of the Internal Audit Service 2017/18, that the Council had an adequate and effective Internal Audit service, which contributes towards the proper, economic and effective use of resources in achieving its objective.

Introduction & Background

- 1 In compliance with Regulation 6.1 of the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards 2016 an annual review of the effectiveness of the Internal Audit function is carried out, using standard guidance and a template obtained from the Institute of Internal Auditors. This report sets out the outcome of the process and the conclusions drawn from it. The results from this process also feed into the Internal Audit Manager's Annual Report and the Council's Annual Governance Statement. The outcome of this review was sent to the Council's Strategic Management Team for consideration and approval.

Summary of Issues Raised Within the Report

- 2 Appendix A sets out a summary of the self-assessment. The process involved the completion of the self-assessment checklist by the Chief Finance Officer, in order to assess compliance with the Public Sector Internal Audit Standards 2016. It is to note that the Internal Audit Team are "Generally Compliant" with 89% of the standard (82% in 2016/17). An action plan has been devised which highlights the areas for improvement.

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Results of the Self-assessment of Internal Audit

- 3 Following the assessment, the Chief Finance Officer's opinion, is that the Council's arrangements in place for Internal Audit in 2017/18 were substantially compliant with the 2016 PSIAS. Audit Management are aware of any deficiencies and areas identified for improvement will be addressed as part of the Internal Audit Service Development Plan for 2018/19.

Key Implications

Financial

This report has no financial implications.

Legal Implications and Risk Assessment Statement

The review of the effectiveness of the Internal Audit function is a regulatory requirement designed to ensure that the service is effective in carrying out its statutory duties aimed at strengthening internal control, risk management and governance processes within the Council, including the minimisation of fraud risks. The outcome of the self-assessment indicates that the service is substantially compliant and that areas for further development are being addressed.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusion

The Chief Finance Officer's opinion therefore is that the Council's arrangements in place for Internal Audit, in 2017/18 were substantially compliant with the 2016 PSIAS.

Appendices

Appendix A - Summary Self-Assessment Checklist

Background Papers:

[The Accounts and Audit \(England\) Regulations 2015](#)

[Public Sector Internal Audit Standards.](#)

Self-Assessment Checklist

Adrian Rowbotham
Chief Finance Officer

Sevenoaks District Council

Internal Audit Standards Self - Assessment Compliance Checklist

Generally Conforms means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

Partially Conforms means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

Does Not Conform means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board. Often, the most difficult evaluation is the distinction between general and partial. It is a judgment call keeping in mind the definition of general conformance above. Carefully read the *Standard* to determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices do not reduce a generally conforms rating.

Internal Audit Standards Self - Assessment Compliance Checklist

		Generally Conforms	Partially Conforms	Does Not Conform
	Definition of Internal Auditing			
Reference	Code of Ethics			
1	Integrity	√		
2	Objectivity		√	
3	Confidentiality	√		
4	Competence	√		
Reference	Attribute Standards			
1000	Purpose, Authority and Responsibility	√		
1010	Recognising Mandatory Guidance in the Internal Audit Charter	√		
1100	Independence and Objectivity	√		
1110	Organisational Independence	√		
1111	Direct Interaction with the Board	√		
1112	Chief Audit Executive Roles Beyond Internal Auditing	√		
1120	Individual Objectivity	√		

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Internal Audit Standards Self - Assessment Compliance Checklist

		Generally Conforms	Partially Conforms	Does Not Conform
1130	Impairments to Independence or Objectivity	√		
1200	Proficiency and Due Professional Care (The sum of <i>Standards</i> 1210-1230)	√		
1210	Proficiency		√	
1220	Due Professional Care		√	
1230	Continuing Professional Development	√		
1300	Quality Assurance and Improvement Programme (The sum of <i>Standards</i> 1310-1320)		√	
1310	Requirements of the Quality Assurance and Improvement Programme	√		
1311	Internal Assessments	√		
1312	External Assessments	√		
1320	Reporting on the Quality Assurance and Improvement Programme		√	
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	√		
1322	Disclosure of Non-conformance	√		
Reference	Performance Standards			
2000	Managing the Internal Audit Activity (Sum total of <i>Standards</i> 2010 – 2060)	√		

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Internal Audit Standards Self - Assessment Compliance Checklist

		Generally Conforms	Partially Conforms	Does Not Conform
2010	Planning	√		
2020	Communication and Approval	√		
2030	Resource Management	√		
2040	Policies and Procedures		√	
2050	Coordination and Reliance	√		
2060	Reporting to Senior Management and the Board	√		
2070	External Service Provider and Organisational Responsibility for Internal Audit	N/A		
2100	Nature of Work (Sum of <i>Standards</i> 2110 – 2130)	√		
2110	Governance	√		
2120	Risk Management	√		
2130	Control	√		
2200	Engagement Planning (Sum of <i>Standards</i> 2201-2240)	√		
2201	Planning Considerations	√		
2210	Engagement Objectives	√		

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Internal Audit Standards Self - Assessment Compliance Checklist

		Generally Conforms	Partially Conforms	Does Not Conform
2220	Engagement Scope	√		
2230	Engagement Resource Allocation	√		
2240	Engagement Work Programme	√		
2300	Performing the Engagement (The sum of <i>Standards</i> 2300-2340)	√		
2310	Identifying Information	√		
2320	Analysis and Evaluation	√		
2330	Documenting Information	√		
2340	Engagement Supervision	√		
2400	Communicating Results (Sum of <i>Standards</i> 2410-2440)	√		
2410	Criteria for Communicating	√		
2420	Quality of Communications	√		
2421	Errors and Omissions	√		
2431	Engagement Disclosure of Non-conformance	√		
2440	Disseminating Results	√		

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Internal Audit Standards Self - Assessment Compliance Checklist

		Generally Conforms	Partially Conforms	Does Not Conform
2450	Overall Opinions	√		
2500	Monitoring Progress	√		
2600	Resolution of Senior Management's Acceptance of Risks	√		
TOTALS		49		6
2016/17 Totals		45		10

Our Audit Service Generally Conforms to 89% of the Standard (82% in 2016/17). Audit Management are aware of the areas for improvement in the 'Partially Conforms' section and are working towards correcting these deficiencies. There are no items that fall into the Does Not Conform Category.

Reference	Standard	Comment	Improvement Action
1173	Objectivity	Currently no safeguards in place within the charter where auditor objectivity comes in to question.	To update the Charter to build in safeguards where auditor objectivity comes in to question.
1210	Proficiency	New job descriptions have been completed for the Audit Manager and Principal Auditor posts but the others have not been reviewed for several years	To review and update the remaining job descriptions as appropriate
1220	Due Professional Care	Internal Audit Manual needs to be updated to reflect current working practices following the introduction of the Teammate IT system. However, the team do have access to Teammate manuals and an advice line if they need assistance with any aspects of the system.	To review and update IA manual to reflect current working practises.
1300	Quality Assurance and Improvement Programme	An External Quality Review was conducted in 2014 by PWC. An action plan has come out of this and a follow-up review was completed by PWC in February 2018.	An update is being presented to the Audit Committee on 19 July 2017.
1320	Reporting on the Quality Assurance and Improvement Programme	As above in 1300	As above in 1300

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Internal Audit Standards Self - Assessment Compliance Checklist

2040	Policies and Procedures	Procedures are in place however they have not been updated to reflect the TeamMate.	Update procedure to include new working practises following the implementation of the TeamMate electronic audit software.
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INTERNAL AUDIT ANNUAL REPORT 2017/18

Audit Committee - 19 July 2018

Report of the: Chief Finance Officer

Status: For Consideration

Key Decision: No

This report supports the Key Aim of Effective Management of Council Resources

Portfolio Holder Cllr. John Scholey

Contact Officer Adrian Rowbotham, Ext. 7153

Recommendation to Audit Committee: That Members:

- a) note the work of the Internal Audit Team for 2017/18; and
- b) support the Acting Audit Manager's opinion that the Council had effective internal controls, risk management and governance arrangements in place for delivering its objectives and the management of its business risks.

Introduction & Background

- 1 This report sets out the achievements of the Internal Audit team in delivering the assurance requirements for the period April 2017 to March 2018. This is in compliance with the Audit Committee's terms of reference, to review and support the work of Internal Audit in delivering the assurance requirement for the Council.
- 2 The report is prepared in compliance with the Accounts and Audit Regulations 2015, and professional guidance issued by CIPFA. The report also took account of the outcome of the review of the effectiveness of the Internal Audit function, which is attached as a separate agenda item for this meeting. Members may note that this report also supports the Council's Annual Governance Statement (AGS), which was considered by this committee on 17 April 2018.

Summary of Issues Raised Within the Report

- 3 Details of the activities of the team during the year 2017/18 are attached as an Appendix to this report. Annex 1 to the Appendix sets out details of the work done in completing the Annual Internal Audit Plan for 2017/18 and Annex 2 lists the outcome of each review.

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- 4 The approved audit plan for 2017/18 consisted of 24 reviews however, during the year 5 reviews were removed and 3 were added to the plan bringing a total of 22 reviews completed by the Audit Team. Amendments to the plan were approved during the year by the Audit Chair and Audit Committee. Paragraph 36 of the attached Appendix sets out the summary of the team's performance indicators for 2017/18.
- 5 Based on the work completed in 2017/18 and other sources of assurance available to the team, the Acting Audit Manager's overall annual assurance opinion is that the Council's arrangements for internal control, risk management, governance and anti-fraud during the period is "effective" (see paragraph 7 on page 4 of the Appendix) for regulatory purposes.
- 6 In summary, the overall impact of the report is that the team has performed well within its available resources and has met the objective of providing an adequate and effective internal audit and control framework for the Council during the year.

Audit Partnership with Dartford Borough Council

- 7 The audit team operates as a shared services arrangement with Dartford Borough Council for the provision of a joint internal audit service. The audit service has operated well during the year and has produced a satisfactory level of assurance to both councils.

Key Implications

Financial

This report has no financial implications.

Legal Implications and Risk Assessment Statement

This report has no additional legal implications other than stated above. The report addresses the risk associated with non-compliance with the Accounts and Audit 2015 and the Public Sector Audit Standards. It is management's view that the relevant risks are effectively being managed.

A robust internal audit function contributes to the effective management of the Council and would help mitigate against poor value for money in service provision.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

The report sets out the achievements of the Internal Audit Team for the period 2017/18, and concludes that the Council's arrangement for internal control, risk management are effective. This opinion is based on the work completed by Internal Audit during the year and other available sources of assurance. This Committee is requested to approve the report and support the assurance opinion for the year.

Appendices

Appendix A - Internal Audit Annual Report 2017/18

Background Papers:

The Accounts and Audit (England) Regulations 2015

[Public Sector Internal Audit Standards](#)

[Annual Internal Audit Plan 2017/18](#)

Adrian Rowbotham
Chief Finance Officer

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Annual Internal Audit Report & Audit Opinion

2017/18



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**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2017/18**

Background

1. This report deals with the outcome of the work undertaken by the Internal Audit Team, for the period 2017/18. The report also contains the overall Assurance Opinion of the Principal Auditor (Acting as Audit Manager) regarding the effectiveness of the systems of the control environment within the Council for the period 2017/18; and a summary of the reviews carried out, including outturn performance indicators for the period. For the purposes of this report, control environment means, the system of internal control, risk management and governance process across the Council.
2. The Accounts and Audit Regulations 2015 set out clear instructions that Councils must follow. Parts of the regulations detail financial management and the need for an Internal Audit service.
3. Financial Management is covered within part 2 of the 2015 regulations and details what the Authority must have in place regarding:-
 - Responsibility for Internal Control
 - Accounting records and control systems
 - Internal Audit
 - Review of the Internal Control System.
4. Internal Audit is governed by the Public Sector Internal Audit Standards 2016. This requires compliance with these standards and therefore this report is prepared in compliance with relevant professional standards and the practice guidance notes issued by CIPFA.

Introduction

5. This report sets out the following details relating to the team's service plan objectives for 2017/18:
 - To provide an overall assurance opinion on the adequacy and effectiveness of the organisations control environment for 2017/18
 - Summarises the outcome of the team's work during 2017/18 with respect to:
 - The Annual Internal Audit Plan for 2017/18
 - Risk Management
 - Annual Governance Statement
 - Assesses Internal Audit performance against a range of performance measures
 - Summarises the results of 2017/18 audit reviews.

Basis of the opinion on the Council's Control Environment

6. The Principal Auditor's (Acting as Audit Manager) opinion on the Council's system of internal control environment is substantially based on the work of the Audit Team during 2017/18. In addition other sources of assurance, including the work of the external auditors are also taken into consideration in the overall opinion where appropriate.

Overall Assurance Opinion on the Council's Control Environment

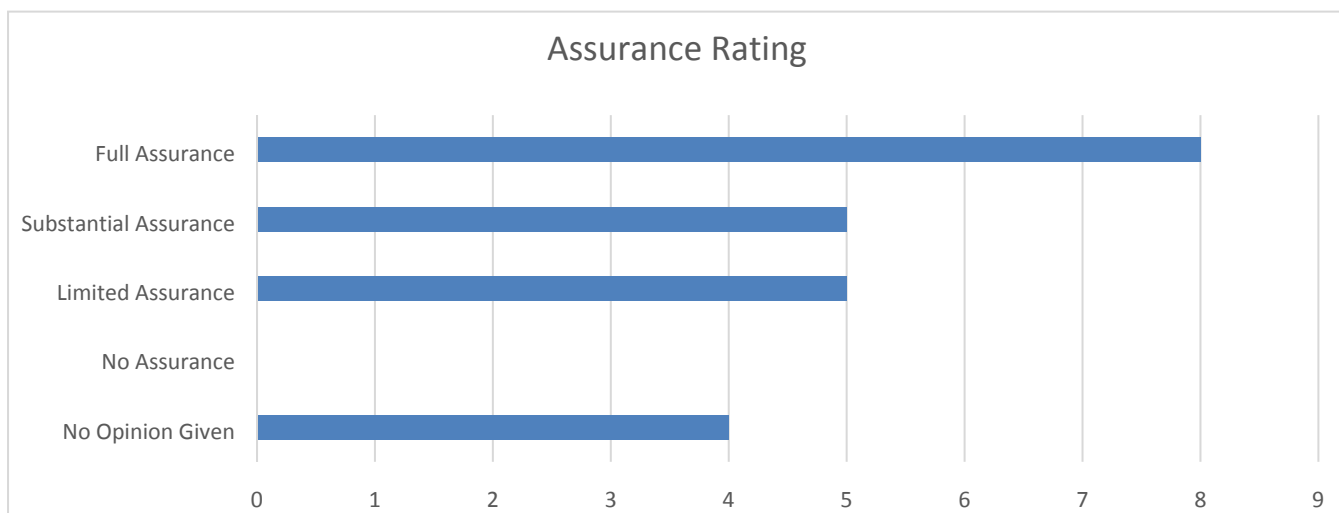
7. Based on the audit work undertaken throughout the year, responses to our recommendations and our fraud or irregularity investigations; and giving regard to other sources of assurance; **in my opinion as Acting Audit Manager, Sevenoaks District Council's Control Environment, contributes effectively to the proper, economic, efficient and effective use of resources in achieving the Council's objectives.** This opinion is based on the work of the Internal Audit Service during 2017/18 and giving regard to the work of the External Auditors and other sources of assurance. Control environment means, the entire system that contributes towards, identifying and delivering organisational objectives (In particular, internal control processes, risk management and governance)
8. Whilst it was identified that management had, in the main, established an effective control environment within the areas reviewed by internal audit during 2017/18, there were areas which presented opportunities for further improvement within the control environment, or where compliance with existing controls could be enhanced, to reduce the financial, legal or reputational risk to the Council. Where such findings were identified, recommendations were agreed with management to further strengthen the controls within the systems/processes they affect.
9. The control environment is designed to manage risks to a reasonable level rather than to eliminate all risks of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Activity During The Year

10. The key responsibility of the team is to provide an in-house internal audit service for Sevenoaks District Council as part of a shared service agreement with Dartford Borough Council.
11. Internal Audit is defined by the Public Sector Internal Audit Standards as; "an independent, objective assurance and consulting activity designed to add value to improve the operations of the Council. It assists the Council to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Council's risk management, control, and governance processes".

**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2017/18**

12. The original audit plan for 2017/18 contained 24 reviews. However as a result of raising the profile of Internal Audit requests for 3 additional pieces of work were added to the plan. At the request of management and with approval of the Audit Committee 5 reviews were removed from the plan.
13. A summary of the opinions given for each review is contained in Appendix A - Annex 2 of this report.
14. The key aspects of internal audit assurance responsibilities are aimed at achieving the following:
 - to facilitate adherence to Council policies, strategies and directives, including the Council’s risk management framework and its Constitution, in order to achieve the organisation’s objectives;
 - to safeguard assets from mismanagement, fraud and prevention of bribery and corruption;
 - to secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records and
 - to ensure compliance with statutory requirements.
15. An additional responsibility is that internal audit works closely with the Council’s external auditors in order to minimise duplication and disruption to service. We also share our findings, which contribute towards strengthening of the control environment and assurance.
16. The table below shows a summary of the opinions for individual reviews from the 2017/18 plan, conducted during the year. It is to note that 36% (8) reviews had an opinion of ‘Full Assurance’, 23% (5) reviews ‘Substantial Assurance’ and 23% (5) reviews ‘Limited Assurance’. Reviews that have ‘no opinion given’ was work carried out for information and guidance purposes only. The definitions of audit opinions are given in Appendix A Annex 3 at the end of this report.



**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2017/18**

17. There were no significant issues arising from audit work completed. We received a good response to our recommendations to improve control across the organisation. To date, departments have fully implemented 19 (50%) (3, 15.8% in 2016/17) of agreed recommendations, with a further 8 (21%) in progress of implementation and the remainder are due for implementation over the coming months.

Internal Audit Plan for 2017/18

18. In order to make best use of staff resources and to maximise the team's effectiveness, the need for audit reviews in individual areas, are considered based on an audit needs analysis, which evaluates the audit universe used on a scoring system. In order to ensure that the Audit Plan for 2017/18 addressed the Council's key risks and adds value, we have identified and prioritised the areas for coverage by:-
- Reviewing the Council's Risk Registers and Corporate Plan;
 - Identifying any other sources of assurance for each of the Council's key risks, which may reduce the added value of an Internal Audit review.
 - Analysing coverage of Internal Audit reviews over the last three years and the assurance opinions provided following each review, to identify any gaps or areas where follow up work would be of value.
 - Identifying any areas of the Audit Universe, which have not been subject to an Internal Audit review for during the past three years.
 - Meetings with Senior Management to discuss key risks and emerging risk areas for the year ahead.
19. The audit plan for 2017/18 contained 24 reviews and was approved at the Audit Committee in April 2017. The internal audit plan was designed to be flexible to the needs of the Council and was therefore be revised as necessary to reflect any changes in risk profiles, or the Council's priorities. Any revisions to the audit plan were presented to the Audit Committee for approval.

Risk Management

20. The Council has a well-established risk management process, which is monitored by the Risk Management Working Group. There is a strategic risk register and an operational risk register for each service of the Council. The operational risk process is co-ordinated by the Internal Audit Team. Risk owners and management monitor the risk registers to ensure they are up to date to ensure that obsolete risks are deleted and new emerging risks are added.

Annual Governance Statement (AGS)

21. The Accounts and Audit Regulations 2015 require the Council to carry out an annual review of its system of internal control; risk management processes

**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2017/18**

and governance arrangements. The outcomes of these reviews are required to be included in an Annual Governance Statement (AGS). The internal audit team co-ordinated the information gathering process, which feeds into the production of the AGS, and offered advice, guidance and information to Management, in order to facilitate the effective completion of the process. A report on the Annual Governance Statement was presented to Members by the Chief Finance Officer at the April meeting of the Audit Committee.

Other Activities

22. A summary of the non-core activities undertaken by the team is as follows:
- Liaison with the Council's External Auditors to facilitate closer co-operation and minimise duplication, where appropriate in delivering the assurance requirements for the Council and to strengthen internal control.
 - Carried out investigations and ad hoc projects as required by management in delivering the Council's objectives.
 - Provide ad hoc advice and guidance to management.
 - The Principal Auditor also attended regular Finance Managers' meetings and Strategic Management Team meetings.

Risk Based System Reviews

23. When carrying out an audit review, we identify the financial and operational controls in place within the system to manage potential risks, and then evaluate and test the controls to ensure that they are operating as planned. This allows us to test only a sample of transactions and still draw conclusions about how well procedures are working in the Council. Examples of the types of controls we expect to see in place are as follows:
- up-to-date procedure notes, so that staff are aware of the procedures they should be following
 - separation of duties and third party checks, so that staff act as checks on each other's actions
 - effective supervision, so that quality is maintained and that any problems are promptly identified and addressed
 - reconciliations between financial records and other records held, to confirm the accuracy of the financial records
 - access to records is limited to those who are authorised to use it for pursuance of Council business
 - effective review of exception reports and other management information

Fraud and Corruption

24. It is not the primary role of Internal Audit to detect fraud, however we have a role in providing an independent assurance on the effectiveness of the

**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2017/18**

processes put in place by management to manage the risk of fraud. We consider fraud and corruption risks in all of our audit projects. Both the Council's Whistleblowing Policy and Anti-Fraud and Corruption Strategy had previously been updated by Internal Audit and were approved by the Audit Committee in April 2017. A recent review of the policy and strategy concluded that no further updates or amendments were required.

Whistleblowing Policy

25. The Whistleblowing Policy states that Internal Audit is one route where concerns can be raised with regard to inappropriate or criminal behaviour. During the 2017/18 year there have been no whistleblowing concerns raised with Internal Audit.

Following up Previous Year's Audit Recommendations

26. Follow-up on previous audit recommendations and agreed actions is necessary to enable internal audit to assess the effectiveness of the audit recommendations implemented by management which address identified weaknesses in internal controls. Whilst carrying out an audit, we follow up any previous audit recommendations as part of the review. Where areas are reviewed annually this means that recommendations are usually followed up the year after they are made. However, where the audit opinion is "Limited Assurance or No Assurance", follow-up would be carried out within 3 to 6 months of the review or sooner, where appropriate.

Internal Audit Section Performance

27. Internal Audit's performance over the past year is analysed over a number of factors in order to facilitate continuous monitoring of inputs, outputs and quality, and to maintain high professional standards. Outturn data for performance measures are highlighted below (see pages 10 to 13).

Quality Measures

28. During the year we worked closely with the Council's External Auditors Grant Thornton to facilitate the assurance requirements.
29. The Public Sector Internal Audit Standards require the Internal Audit Service to carry out an annual self-assessment of compliance with the standards, and an external review by an independent firm every five years. The Self-Assessment is to be presented to the Audit Committee in July 2018. An external review was carried out in 2014 and an action plan produced to address areas identified for further improvements. Towards the end of 2017 a follow up review was under taken by PWC which highlighted significant improvements to the Internal Audit Service and that substantial progress has been made in delivering the 2014 action plan.

**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2017/18**

Audit satisfaction questionnaires - As part of our overall approach to quality, a customer survey questionnaire is sent to all recipients of internal audit final reports; in order to obtain feedback from audit clients regarding the effectiveness of the audit process and client's perception of the value added to their service. The purpose of this questionnaire is to enable monitoring of the audit process, to provide assurance that individual audit reviews have been conducted in a professional manner; that reported findings and recommendations are soundly based; and that the audit client has been appropriately consulted during the audit process. The survey results received so far are summarised in the table below. The analysis of the results demonstrates that there is unanimous consensus on all issues raised regarding the effectiveness of the audit process; and an almost unanimous consensus amongst all managers that the audit outcome added value to their service.

**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2017/18**

Responses to Questionnaires:

	Question	Yes	%	No	%	N/A	%
1	I was given adequate notification and opportunity to contribute and comment prior to the Audit Brief being issued.	20	100%	0	0%	0	0%
2	Appropriate staff were interviewed.	20	100%	0	0%	0	0%
3	Audit objectives covered all the relevant issues.	20	100%	0	0%	0	0%
4	I am confident with the accuracy of the audit findings	20	100%	0	0%	0	0%
5a	I was given adequate opportunity to discuss audit findings and recommendations during the feedback,	20	100%	0	0%	0	0%
5b	and my views were adequately reflected in the final report.	20	100%	0	0%	0	0%
6a	The final audit report was timely,	20	100%	0	0%	0	0%
6b	and clear and understandable.	20	100%	0	0%	0	0%
7a	The audit recommendations in the final report were relevant,	19	95%	0	0%	1	5%
7b	practical,	18	90%	1	5%	1	5%
7c	realistic,	19	95%	0	0%	1	5%
8a	Has this audit added value.	17	85%	0	0%	3	15%
8b	Given assurance of adequacy (or not) of internal controls.	20	100%	0	0%	0	0%
9	Did the audit identify any unknown issues?	8	40%	12	60%	0	0%

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**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2017/18**

Implementation of Recommendations

30. Following an audit, all report recipients are asked to complete a monitoring sheet showing whether they agree with the recommendations made and how they plan to implement them. The results are summarised as follows:

Analysis of progress sheets

Recommendations	2017/18		2016/17	
	number	%	number	%
accepted	38	100	50	100
Rejected	-	-	-	-
recommendation implemented	19	50	37	74
implementation in progress	8	21	8	16
implementation planned (Not yet due)	11	29	5	10
no action recorded	-	-	-	-

31. In total, we have agreed 38 recommendations to date in 2017/18. The majority of which, are in the process of being implemented.
32. The above shows that services are taking action on 100% of our recommendations.

Input Resources

Staffing

33. The Principal Auditor had stepped up to the Audit Manager's role to ensure continuity of the audit service. As a result current staffing resource for the audit partnership with Dartford Borough Council, consists of a Principal Auditor (Acting as Audit Manager) and 3.8 FTE Senior Auditors and an Administration Assistant (0.54 FTE). For the 2018/19 financial year the number of FTE Senior Auditors has reduced to 2.8.

Training

34. Training is an important part of staff development and is required to ensure continuing professional development (CPD) to equip staff with the skills they need to provide quality and an effective services and to keep abreast of regulatory and technical developments. Over the past year, team members participated in training covering the following areas:
- Team Mate (Internal Audit Software) Training
 - Various Talent In Me (TIM) Courses provided by SDC

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- Insights into Internal Audit Standards (CIPFA Professional Standards and CIPFA Introduction to Internal Audit)
- Ivy soft (In-house on-line training on a range of subjects)
- Attendance at the Local Audit Quality Forum
- Chartered Institute of Management Accountants Annual Conference

35. The team also participated in the County Wide Kent Audit Group where best practice is discussed and disseminated.

Performance measures

36. In 2017/18, the team was measured against the following PIs for Internal Audit based on the CIPFA guidance. The following shows actual performance against targets for 2016/17 and 2017/18.

	<i>Measure</i>	<i>Target</i>	<i>Actual 2017/18</i>	<i>Actual 2016/17</i>
1	<i>Percentage of internal audit time spent on direct activity</i>	<i>80% of available time.</i>	82.24%	86.43%
2	<i>Efficiency of the audit service</i>	<i>95% of draft reports issued within 15 working days of completion of the audit fieldwork.</i>	100%	100%
3	<i>Efficiency of the audit service</i>	<i>95% of audits achieved in allocated days (+10%)</i>	77%	82.35%
4	<i>Client satisfaction with audits carried out</i>	<i>92% client satisfaction as indicated by the responses to the post audit questionnaires.</i>	97%	94%
5	<i>Completion of the revised Internal Audit Plan</i>	95 %	100%	100%

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Appendix A - Annex 1 - Progress Against 2017-18 Internal Audit Plan

PROGRESS AGAINST 2017/18 INTERNAL AUDIT PLAN		Status at 15/5/18					
		Final report issued	Draft report issued	Feedback process in progress	Fieldwork in progress	Brief issued	Removed from 17/18 plan
1	Community Infrastructure Levy						x
2	IT Acquisitions	x					
3	NDR (Business Rates)	x					
4	Licensing	x					
5	Key Financial Systems	x					
6	Housing Benefit & Council Tax Reduction	x					
7	Property Investment Strategy	x					
8	Discretionary Housing Payments	x					
9	Insurances	x					
10	HERO Project	x					
11	Private Sector Letting Scheme						x
12	Homelessness Prevention**						x
13	Safeguarding	x					
14	Disabled Facilities Grants	x					
15	Vehicle Procurement (Dunbrik)	x					
16	Health & Safety	x					
17	Environmental Health	x					
18	Project - Environmental Health	x					
19	Members Expenses	x					
20	Payroll	x					
21	Operational Changes (Planning)						x
22	Print Studio	x					
23	Quercus7	x					
24	Channel Shift (Phase 1)						x
25	Physical Data Security	x					
26	Tree Preservation Orders	x					
27	Financial Systems at SDC	x					
	Total	22	0	0	0	0	5
	COMPARATIVE POSITION June 2017	21	0	0	0	0	8

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Appendix A - Annex 2 PROGRAMMED AUDIT WORK COMPLETED DURING 2017-18

	Audit title	Opinion:
1	Asset Management 2016/17	Substantial Assurance
2	Cash Income 2016/17	Substantial Assurance
3	Car Park Income 2016/17	Full Assurance
4	New Anti-Fraud Arrangements 2016/17	Substantial Assurance
5	Licensing 2017/18	Position Statement no opinion provided
6	IT Acquisitions 2017/18	Substantial Assurance
7	Physical Data Security 2017/18	Limited Assurance
8	Discretionary Housing Payments 2017/18	Full Assurance
9	HERO Service 2017/18	Limited Assurance
10	Disabled Facilities Grants 2017/18	Full Assurance
11	Insurances 2017/18	Substantial Assurance
12	Safeguarding 2017/18	Substantial Assurance
13	Housing Benefits & Council Tax Support 2017/18	Full Assurance
14	Non-Domestic Rates 2017/18	Full Assurance
15	Finance Systems (TASK & Agresso)	No opinion given, report was for advice purposes only
16	Tree Application Decision Making	Limited Assurance
17	Property Investment Strategy 2017/18	Full Assurance
18	Environmental Health Customer Service Questionnaire Process 2017/18	This review was for information and guidance purposes only, and therefore no audit opinion is given.
19	Payroll 2017/18	Full Assurance
20	Members' Expenses	Substantial Assurance
21	Key Financial Systems 2017/18	Limited Assurance

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22	Vehicle Procurement 2017/18	Full Assurance
23	The Print Studio 2017/18	Limited Assurance
24	Corporate Health & Safety 2017/18	Full Assurance
25	Quercus 7 2017/18	Substantial Assurance
26	Environmental Health Project 2017/18	This review was for information and guidance purposes only, and therefore no audit opinion is given.
	Overall Opinion	See opinion on Paragraph 7

Note: See annex 3 below for definitions of audit opinions.

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Appendix A - Annex 3 - DEFINITIONS of AUDIT OPINIONS

OPINION	DEFINITIONS
Full Assurance (no High or Medium Risk Recommendations)	<p>A sound framework of control is in place that meets the Council's or service objectives. All expected controls tested are in place and are operating effectively.</p> <p>No specific follow-up review will be undertaken; follow-up will be undertaken as part of the next planned review of the system.</p>
Substantial Assurance (no High Risk Recommendations)	<p>There is generally a sound framework of control in place designed to meet the Council's or service objectives. However, there are isolated weaknesses in design of controls, or inconsistent application of controls, which puts the achievement of a limited number of objectives at risk.</p> <p>Follow up of medium priority recommendations only will be undertaken within 3 to 6 months; follow up of low priority recommendation will be undertaken as part of the next planned review of the system.</p>
Limited Assurance	<p>Weaknesses identified within the framework and there exist evidence of non-compliance with Council procedures or good practice, which puts the achievement of the Council's or service objectives in many of the areas reviewed at risk.</p> <p>Follow-up of high and medium priority recommendations only will take place within 3 to 6 months; follow-up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
No Assurance	<p>Absent or non-existent evidence of framework; fundamental weaknesses identified within design; operation of key controls has resulted in failure, or could result in failure to achieve the Council's or service objectives in the areas reviewed.</p> <p>Follow-up of high and medium priority recommendations only will take place within 3 to 6 months; follow-up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>

REPORT ON INTERNAL AUDIT RECOMMENDATIONS OUTSTANDING

Audit Committee - 19 July 2018

Report of the: Chief Finance Officer

Status: For Consideration

Key Decision: No

This report supports the Key Aim of Effective Management of Council Resources

Portfolio Holder Cllr. John Scholey

Contact Officer Adrian Rowbotham, Ext. 7153

Recommendations to Audit Committee: That Members note the reasons for delayed implementation, where the ranking is medium or high, and endorse the revised dates for implementation provided by management, as set out in Appendix A to the report.

Introduction

- 1 This report updates Members on progress of the implementation of Internal Audit Recommendations agreed with management, and to report on outstanding recommendations due for implementation by 30 April 2018.
- 2 The report also informs the Committee where implementation dates have been revised, where agreed recommendations have not been implemented or are no longer intended.

Summary of Issues Raised Within the Report

- 3 Appendix A provides details of agreed recommendations (where the Priority/Ranking is medium or high) where management have advised Internal Audit that implementation of the actions agreed has initially been delayed from the date originally stated. Enquires with management indicates that satisfactory progress is being made, or proposed; and that there are no major concerns arising as a result of the change in implementation dates. However Internal Audit will continue to monitor progress where appropriate and report back to the Audit Committee as necessary.

Key Implications

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Financial

This report has no financial implications.

Legal Implications and Risk Assessment Statement

The purpose of Internal Audit recommendations are to manage identified risks and improve internal controls and value for money in service provision. Consequently, risk profiles may increase in areas where the implementation of recommendations is delayed, if there are no compensating mitigating controls in place. This may have potential financial and legal consequences for the Council. Members' consideration of this report will facilitate the Council's ability to manage such risks.

Value for Money and Asset Management

Timely implementation of Internal Audit recommendations could facilitate the Council's ability to obtain greater value for money and guard against waste, inefficiency and identified risks.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

The report on recommendations outstanding enables Members to review the timeliness of implementation of Internal Audit recommendations. When recommendations have not been implemented, it enables Members to seek explanations, or agree revised dates. If management propose not to action recommendations and accept the risk, Members can review this action to determine if it meets the objectives of the Committee and the Council's risk appetite. Where appropriate, Members may request responsible management to attend the Committee and provide further explanations as necessary.

Appendices

Appendix A - 'Overdue' recommendations where implementation delayed (ranking medium or high)

Background Papers:

None

**Adrian Rowbotham
Chief Finance Officer**

‘OVERDUE’ RECOMMENDATIONS WHERE IMPLEMENTATION HAS BEEN DELAYED (WHERE RANKING IS MEDIUM OR HIGH)

Audit: Print Room 2017/18

Recommendation	Priority/ ranking	Original response	Latest position + (source)
<p>1 In the short term an excel spread sheet could be used to calculate costs of a job, calculations should be checked for accuracy by another member of staff. In the longer term, all job costings should be calculated on the ‘Canon Prisma’ software as there is a facility to do this.</p> <p>This linked to rec. 2</p>	<p>Medium</p>	<p>Agreed Action: Agreed</p> <p>Responsible Officer: Head of Transformation and Strategy/Print Studio Supervisor</p> <p>Recommendation Implementation Date: 1 April 2018</p>	<p>A dedicated pricing structure is being developed for roll out in PRISMA and this will form the basis of all future charging through the software. Spot checks are undertaken on current price calculations to ensure they are accurate for the customer.</p> <p>Head of Transformation and Strategy - 26/6/18</p> <p>Internal Audit Comment In view of latest management update, Internal Audit will continue to liaise with the Head of Transformation and Strategy and advise the Committee further at the January 2019 meeting of the Committee.</p>
<p>2 Print Studio Supervisor/Head of Transformation and Strategy to liaise with the IT service to ensure that the software is installed on the agreed dates and that consideration be given to adding this item to the Project Working Group Agenda.</p>	<p>High</p>	<p>Agreed Action: Agreed</p> <p>Responsible Officer: Head of Transformation and Strategy</p> <p>Recommendation Implementation Date: 30 April 2018</p>	<p>The software is being built during July and will be delivered for use from August. Roll out to customers will follow from September after a period of training and software testing.</p> <p>Head of Transformation and Strategy - 26/6/18</p> <p>Internal Audit Comment In view of latest management update, Internal Audit will continue to liaise with the Head of Transformation and Strategy and advise the Committee further at the January 2019 meeting of the Committee.</p>

<p>3 That sales to council staff are formally recorded and non-payment (if applicable) of goods received are followed up. A payment reference (a name or number) should be recorded on Agresso so the payment can be identified so that non-payers can be followed up. Consideration should be given to other payment options such as Paypal.</p>	<p>Medium</p>	<p>Agreed Action: Agreed</p> <p>Responsible Officer: Head of Transformation and Strategy</p> <p>Recommendation Implementation Date: 1 April 2018</p>	<p>All staff payments are being recorded and payment is now taken on product delivery.</p> <p>Paypal is unsuitable at this time.</p> <p>On the delivery of the new PRISMA software all sales to staff will be recorded electronically.</p> <p>Head of Transformation and Strategy - 26/6/18</p> <p>Internal Audit Comment Internal Audit were unable to verify whether a payment number of name were recorded on Agresso as the Print Studio Supervisor advised that there had been no transactions of this type since the audit took place. In future, it is planned that these transactions will be recorded on the new software (PRISMA). Internal Audit will continue to liaise with the Head of Transformation and Strategy and will advise the Committee further at the January 2019 meeting of the Committee.</p>
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EXTERNAL REVIEW OF INTERNAL AUDIT - UPDATE

Audit Committee - 19 July 2018

Report of Chief Finance Officer

Status For Consideration

Key Decision No

Executive Summary: This report presents the PricewaterhouseCoopers (PWC) follow-up review report to Members, together with the associated action plan.

This report supports the Key Aim of Effective Management of Council Resources.

Portfolio Holder Cllr. John Scholey

Contact Officer Adrian Rowbotham, Ext. 7153

Recommendation to Audit Committee: That Members note the finding from the PWC follow-up review and approve the associated action plan at Appendix B.

Introduction and Background

- 1 The Public Sector Internal Audit Standards (PSIAS) require that an external review of Internal Audit is carried out by an external assessor at least once every five years. In order to meet this requirement, PricewaterhouseCoopers (PWC) were appointed to carry out an independent review of the Internal Audit service in 2015.
- 2 The purpose of the review was not only to ensure that the Internal Audit Team are compliant with the new standards but also to provide assurance that the Internal Audit Service is effective at strengthening internal control, risk management and governance processes within the Council and makes appropriate recommendations through its audit reviews to improve both the internal control framework and the achievement of value for money.
- 3 The outcome of the review was reported to the Audit Committee on 23 June 2015.
- 4 The review recognised that Internal Audit had a full set of templates and a quality management system that were comprehensive, represented good practice and conformed to PSIAS. However, their report also highlighted a number of improvements to processes and procedures. It also identified that moving forward the service needed to modernise in response to the changing

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face of local government and needed to find innovative ways of working to add real value to the organisation. Consequently an action plan was developed to address these issues.

- 5 The Internal Audit Team is a shared service between Dartford Borough Council and Sevenoaks District Council. The shared services agreement between the parties has been in operation since April 2010. The establishment consists of an Audit Manager, a Principal Auditor, 2.8 FTE Senior Auditors, an Auditor and an Admin Assistant at 0.5 FTE.

Follow Up Review

- 6 It was previously intended to carry out a follow-up review in 2016 to give assurance that the Internal Audit Team is providing, or is in the process of providing, the service that the council requires going forward.
- 7 The follow-up review was delayed due to the long term absence of the Audit, Risk and Anti-Fraud Manager but following his departure, PWC were commissioned to undertake a review to ascertain what progress has been made against the action plan and to identify where further improvements are required. The PWC report is included at Appendix A.
- 8 The key headlines from PWC's findings are as follows:
 - Good progress has been made to implement the recommendations raised in respect of quality assurance and performance management. A new audit management system, Teammate, has been implemented. Moving forward, the team must ensure that they fully utilise the functionality of Teammate. The audit manual should also be updated to ensure it remains a useful tool for the team.
 - Improvements have been made to the communication and reporting of audit findings, however, key stakeholders remain unclear on where the Internal Audit service can add further value. A vision should therefore be developed to ensure that there is a clear understanding of what Internal Audit can deliver and what the Council wants from the Internal Audit service going forward.
 - There has been an improvement in the perception of the Internal Audit service by stakeholders. Feedback on the management of the audit plan and the timeliness of delivery of audit reports from stakeholders has been positive. However, there remain concerns regarding the team's ability to provide deep insight into complex areas. A skills assessment of the current Internal Audit team should therefore be undertaken and a schedule of training implemented.
 - An Audit Needs Assessment is now undertaken annually to identify current and emerging risks to ensure they are reflected in the annual audit plan. However, there needs to be greater engagement between Internal Audit and the wider business to ensure that there is a clear

understanding of the Council's key risks and thus to ensure that Internal Audit can provide assurance where it is needed.

Next Steps

- 9 Consideration has been given to the above findings and an action plan has been developed to address the service gaps (Appendix B).
- 10 The positions of Audit, Risk and Anti-Fraud Manager and Principal Auditor are currently vacant. There is also a vacant Auditor role within the team. An update on the staffing position will be provided at the meeting.

Key Implications

Financial

The cost of the follow-up review was shared with Dartford Borough Council and has been met from within existing Internal Audit budgets.

Legal Implications and Risk Assessment Statement.

Compliance with the PSIAS is a regulatory requirement designed to make the Internal Audit Service more effective. Compliance with the standards should ensure that the service is effective in carrying out its statutory duties, aimed at strengthening internal control, risk management and governance processes within the Council, including the minimisation of fraud risks.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Appendices

Appendix A - PWC Report

Appendix B - Action Plan

Background Papers

[External Review of Internal Audit Update - Audit Committee 15 March 2016](#)

[External Review of Internal Audit - Audit Committee 23 June 2015](#)

[External Review of Internal Audit - Audit](#)

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[Committee 13 January 2015](#)

[Report on the Public Sector Internal Audit Standards - Audit Committee 10 June 2014](#)

Adrian Rowbotham
Chief Finance Officer

Internal Audit

External Quality Assessment Follow Up – Final Report

Sevenoaks District Council
February 2018



Adrian Rowbotham
Sevenoaks District Council
Council Offices
Argyle Road
Sevenoaks
Kent
TN13 1HG

05 February 2018

Dear Adrian,

Please find enclosed our memorandum in relation to the follow up of the 2015 External Quality Assessment of the Sevenoaks District Council Internal Audit function (“the Internal Audit function” or “Internal Audit”) in accordance with our Engagement Letter dated 8 August 2017 and the related Terms and Conditions.

The PwC team, including Stuart Brown, Sam Wilkinson and myself, would like to recognise the contribution, support and assistance we received from the Internal Audit team and management during the course of the review.

Yours faithfully,

For and on behalf of PricewaterhouseCoopers LLP

A handwritten signature in black ink, appearing to read 'Justin Martin', with a horizontal line drawn through it.

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External Quality Assessment Follow Up Memorandum

1. Background

The purpose of the review was to follow up on the implementation status of the External Quality Assessment (EQA) review undertaken by us in 2014-15. Our follow up review included a self-assessment against the previous recommendations raised, including corroboration to supporting documentation and internal audit working papers; and interviews with key business and Internal Audit stakeholders.

The Internal Audit service for Sevenoaks is shared with Dartford Borough Council and this assessment has been undertaken as a joint exercise but is reported separately to each Council. We have considered the context and organisation of the Internal Audit service at each council separately.

2. Scope of our work

The scope of our follow up review was as follows:

- We reviewed the progress made against the action plan that was agreed to address the findings raised in the Internal Audit EQA completed in May 2015. Results of the progress that has been made is summarised in sections 3 and 4, and detailed in full in Appendix A.
- As part of the work in 1 above, we have undertaken a high level review of whether the Internal Audit service aligns to the needs of audit stakeholders and good practice seen at other councils. This is detailed in sections 5 and 6.
- In addition, we considered the current structure of the Internal Audit team and identified points for consideration to help the Internal Audit service meet the needs of audit stakeholders. This is detailed in section 7 and we have included a summary of some of the options available within Appendix B and C.

3. Summary of progress against EQA recommendations

We have found that positive progress has been made in many areas to improve the Internal Audit service due to the efforts of the Internal Audit team and management. However, further work is required to ensure that the service is aligned to good practice and wider stakeholder needs. The table below summarises the progress made against the EQA recommendations raised in each area:

	EQA Rating (2015)*	Number of recommendations			EQA Follow Up Rating (2017)	Direction of travel
		Raised in the EQA	Not implemented	Partially implemented		
Organisation and independence	●	3	2	1	-	↔
Audit team	●	2	2	-	-	↔
Quality assurance and audit management	●	6	1	2	3	↑
Communication and Reporting	●	6	-	3	3	↑
Quality, Tools and Performance Management	●	4	-	2	2	↑
Total		21	5	8	8	

*an explanation of the ratings used are detailed on page 2

EQA Ratings

The following ratings were been to assess each area in the initial EQA:

- Good practice and in some areas at leading practice based on PwC experience and benchmarks
- Good practice with some minor improvements or opportunities to align to management expectations
- Satisfactory with scope for improvement
- Unsatisfactory with significant issues

The EQA recommendations raised in 2015 have been assessed and RAG rated as follows: not implemented, partially implemented, or fully implemented.

Where applicable, follow-up actions have been raised which are required to fully implement the findings from the External Quality Assessment. These are detailed in Appendix A.

4. Key observations from follow up of EQA recommendations

5. The observations from our review of the implementation of the EQA recommendations are detailed in Appendix A alongside an action plan to take the recommendations forward. The key observations are summarised below:

1. Organisation and Independence

A coherent strategy and vision still needs to be developed to ensure that the Internal Audit team, and the wider organisation, has a clear understanding of what Internal Audit can deliver and what it wants from its Internal Audit service going forward. Consideration should be given to the needs of stakeholders (section 4), alignment with best practice (section 5) and considerations for the future (section 6).

In addition, we noted that independence safeguards and updates are required to the Internal Audit Charter and Service Level Agreement to ensure these remain fit-for-purpose.

2. Audit team

We identified that only limited progress has been made against the recommendations raised as part of the EQA in 2015. We understand that this is due to staffing pressures within the Internal Audit team. A skills assessment of the current team should be undertaken to identify any gaps against the Internal Audit strategy once developed. Once completed, a schedule of training should be implemented to help develop individuals in the team to meet any skills gaps and to ensure the continual personal development of the Internal Audit team.

3. Quality assurance and audit management

The majority of the EQA recommendations raised in this area have begun to be implemented. However, training is required to help embed the new processes and ensure there is adequate focus on quality. In addition, the audit manual requires updating to ensure it is a useful tool for the Internal Audit team. Any review of the operating model or structure of the function should ensure robust quality assurance and audit management processes remain in place.

4. Communication and reporting

Improvements have been made to the communication of the annual opinion to the Audit Committee, and the reporting to them over audit and implementation performance. The majority of EQA recommendations in this areas have now been implemented. However, we found that key audit stakeholders remain unclear on the range of services offered by Internal Audit, and where they can add further value.

5. Quality, tools and performance management

There has been good progress against the EQA recommendations in this area, including the implementation of the audit management system, *Teammate*. However, improvements should be sought to ensure the Internal Audit team fully utilises the functionality of *Teammate* and that they have access to appropriate technology, for example data analytics tools, and adequate knowledge sharing is in place to share good practices across each Council.

6. The needs of stakeholders

As part of our follow up to the EQA, we met with key stakeholders across both of the councils in the shared service to understand whether the Internal Audit function currently meets their needs. The following themes were identified from our interviews:

Engagement and alignment with the wider business - In general, stakeholders noted that engagement between the wider-business and Internal Audit requires improvement. The interviewed stakeholders noted that Internal Audit needs to solidify its position as a trusted advisor within the Council to ensure it has the engagement and buy-in from the wider-business.

Skills within the Internal Audit team - Stakeholders noted improvements in the service delivery, though there remained concerns regarding the team's ability to provide deep insight in complex areas. Stakeholders noted that due to staff changes within the team there had been historic issues in the consistency of understanding of service areas.

Understanding what Internal Audit can deliver/ value-add reviews - It was noted that stakeholders had begun to use Internal Audit to undertake 'value add' reviews, rather than more traditional, compliance-based audits. However, there was a lack of understanding of where Internal Audit had the skills and ability to deliver these types of reviews. In particular, there was a lack of understanding of how and where Internal Audit could add value, and what other services they could offer.

Improvements in the delivery of Internal Audit work - We found through interviews with key stakeholders that there has been an overall improvement in the perception of the Internal Audit service. There was positive feedback in how the audit plan was being managed and the timeliness of delivery. Stakeholders noted that the insight within reporting had begun to improve, however, there was a need to ensure that the Internal Audit team had the relevant skills to deliver deep value.

Aligning with stakeholder needs

To align to the needs of the stakeholders, identified above, the Internal Audit service requires robust leadership to ensure that a clear strategy and vision is developed to meet stakeholder needs. This will help solidify Internal Audit's position within the Council and help foster greater engagement with the wider-business. As noted in the section above, this has not yet been implemented from the previous EQA recommendations.

Internal Audit should ensure it truly understands, and therefore aligns its work to, the key risks facing the Council. This should include assessments of all current risks, and those risks emerging across the sector and from changes in the way that the Council operates. We noted improvements in this area, from the previous EQA, and an Audit Needs Assessment is now undertaken annually. In addition, Internal Audit is represented on the Procurement Working Group and Safeguarding Group. The Acting Internal Audit Manager is also a member of the Council's Risk Management Working Group, which helps to ensure that the Internal Audit team are aware of current and emerging risks.

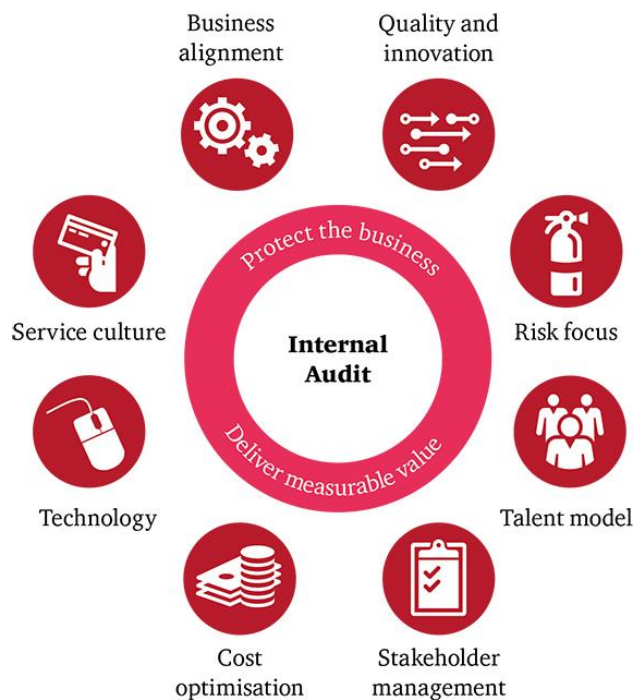
Where specialist skills are required to provide assurance over these key risks, Internal Audit should ensure that the team have the skills and ability to do so. Where built up, these skills and abilities should be communicated to the wider-business, and key audit stakeholders, to ensure they are utilised effectively.

In developing the Internal Audit service, consideration should be given to the needs of audit stakeholders alongside good practice seen across the sector, which is detailed below.

7. Alignment with good practice

We have set out above what stakeholders across different service areas value from Internal Audit and the level at which they feel Internal Audit is operating at the moment. This has identified that there is more to do in the areas of leadership of the Internal Audit function, skills and capabilities and the value and insight that Internal Audit can add.

PwC has identified Eight Attributes of Internal Audit Excellence, which are set out in the diagram below:



These attributes are framed around the two key functions of a successful Internal Audit function: **to protect the business** and **to deliver measurable value**.

From discussion with key Internal Audit stakeholders, our review identified the following:

- **Business alignment:** The Internal Audit service needs to ensure that it understands the key objectives of the business and the associated risks and focus its work around this. This included the need for the Internal Audit to be more forward looking, providing support and input to projects.
- **Stakeholder management:** Internal Audit should ensure they continue to build on their current relationships with senior management to help the function further align with the organisation’s direction of travel and to focus on the key risks and priorities.
- **Talent model:** The need for Internal Audit to be able to draw down on specialist skills to cover emerging risk and complex risks, for example, those within IT.
- **Technology:** Internal Audit has successfully implemented Teammate as its audit management software. This is a positive step forward which should help to promote a consistency of approach and enforce quality assurance processes.
- **Risk focus:** Due to resource constraints and limited access to specialist skills the Internal Audit plan does not pick up on some of the key risk areas facing the Council, for example, IT risk, contract management and key programme reviews.
- **Service culture:** Feedback was that the experience of working with Internal Audit has improved, due to improved personnel and processes developed over the last 12 months.
- **Quality and Innovation:** The quality review process has improved with all working papers and deliverables being reviewed by the Acting Internal Audit Manager. Innovation in audit, including the use of data to enhance the audit approach is limited and although the Acting Internal Audit Manager does interact with peers at the Kent Audit Group further work is needed to refresh and bring new ideas to further progress the audit approach.
- **Cost optimisation:** We are unable to comment on cost optimisation as cost benchmarking has not been undertaken as part of this review.

8. Future considerations

Key considerations for the future

From our consideration of the progress made against the action plan raised during our EQA (section 4), the views of stakeholders (section 5) and alignment with good practice (section 6), there are a number of considerations and decisions which need to be made to ensure the Internal Audit service provides the best value to the Council.

In Appendix C, we have detailed some questions for the Council (along with Dartford Borough Council) to consider. These should be discussed to decide upon Internal Audit's strategy, vision and thus what the best delivery model would be for both councils. Below, we have provided some insight, which should be considered.

Structure and Delivery Model

Having the right structure and delivery model is important to have an effective and efficient Internal Audit function. There are several different models for the delivery of an Internal Audit service. These include:

- In-house;
- Co-source;
- Outsource; and
- Shared service.

There are advantages and disadvantages with each model and the Council will need to decide which model would work best to meet its requirements. In Appendix B, we have summarised the key pros and cons that should be considered for each model.

The Council is currently in a shared service with Dartford, which involves the core principles of a shared service, albeit the staff are currently still employed by their original Council and no separate vehicle has been set up to house the shared service. This is a model that we have seen elsewhere in local government. We have also seen similar models where the shared service is fully hosted by one Council, with all employees directly employed by that Council on harmonised terms and conditions (for example, the Ealing Shared Service).

In the Kent area there are a number of established Internal Audit partnerships and shared service models. In Kent we understand that there are the following:

- Dartford Borough Council and Sevenoaks District Council;
- Kent County Council and Tonbridge and Malling;
- East Kent Internal Audit Partnership (Thanet, Canterbury, Dover, Shepway); and
- Mid Kent Internal Audit Partnership (Ashford, Maidstone, Swale, Tunbridge Wells).

The Council should consider these options to understand which would fit best with the needs of the stakeholders across both Councils and deliver greatest value.

Appendices

Appendix A – Detailed outcome of follow up

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
1. Organisation and independence			
1.1 Strategy and vision			
<p>The Audit, Risk and Anti-Fraud Manager should work with key stakeholders including the Chief Executive and the board to understand expectations of Internal Audit; what they want from the service now and in the future. This should be captured in an updated strategy and vision for Internal Audit and an analysis undertaken to determine what additional skills and resources are needed to achieve this vision (see further recommendations below on Audit Team).</p>	<p>There remains a lack of clear strategic vision for the shared Internal Audit service.</p> <p>Through interviews with the Internal Audit team and key audit stakeholders, we noted that there remains a gap in what Internal Audit delivers and where stakeholders would like the service to be. This includes a lack of awareness from some stakeholders of what Internal Audit could deliver to provide better value in their service areas.</p> <p>A clearly defined vision and strategy would provide clarity over Internal Audit's priorities to both the Internal Audit team, and the wider organisation. This would also help to ensure that available resources are prioritised and most effectively utilised.</p>	Not yet implemented	<p>A vision and strategy for the Internal Audit service should be considered with input from key stakeholders and senior management. A clear vision of what role Internal Audit will play, and how this will be achieved, should be developed. This should include any investment that is required to get there, e.g. IT infrastructure and training.</p> <p>The strategy should ensure that Internal Audit's objectives are clear and expectations are managed within the Internal Audit team and the wider organisation.</p>
1.2 Internal Audit Charter			
<p>A number of improvements should be made as follows:</p> <ul style="list-style-type: none"> - The Charter should clearly define the 'board' and 'senior management' within the Authority; - Further detail should be included on work undertaken outside of the audit programme and independence safeguards in place to maintain auditor independence; - The PSIAS state that the Charter should define the role of Internal Audit in fraud related work; this is not captured in the Charter at present; and - Reporting in place, including the annual summary report should be noted in the Charter. 	<p>The Internal Audit Charter was updated following the EQA to include those areas noted in our initial recommendation.</p> <p>However, through discussion with the Internal Audit team, it was noted that there are additional conflicts of interest, where team members are undertaking risk management and procurement roles without any identified safeguards in place.</p>	Partially Implemented	<p>The Internal Audit Charter should be updated to identify all conflicts of interest within the service and appropriate mitigating safeguards. The Charter should be updated periodically to ensure it remains up-to-date.</p>

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
<p>1.3 Service Level Agreement (SLA)</p> <p>Ongoing operational issues should be resolved as a matter of urgency and the SLA should be updated and finalised to ensure arrangements for the provision of the Internal Audit service are clear.</p>	<p>There is no up-to-date Service Level Agreement (“SLA”) in place between the two Council’s (Dartford and Sevenoaks) regarding the shared Internal Audit service.</p> <p>A number of operational challenges have been raised, which currently impact the audit shared service. These include IT, office location and differing performance and appraisal systems across the two Councils and thus between audit team members.</p> <p>As noted in 1.1 above, through discussion with stakeholders, it was identified that they would benefit from greater communication over what services Internal Audit can provide. This would help to ensure that Internal Audit provides value and would help to raise the profile of the function.</p>	<p>Not yet implemented</p>	<p>An SLA should be agreed by both Council’s regarding the Internal Audit service to ensure that arrangements for the provision of Internal Audit services are clear.</p> <p>The operational issues should be resolved through partnership working and the SLA updated and finalised to confirm arrangements.</p> <p>Once an Internal Audit strategy and vision have been agreed (see 1.1 above), a brief of services offered by Internal Audit should be created. This should be communicated with senior management across the Council and be utilised to drive conversations in the planning of next year’s audit plan.</p>
<p>2. Audit team</p>			
<p>2.1 Skills assessment and training/ development plan</p>			
<p>The Audit, Risk and Anti-Fraud Manager should undertake a skills assessment of the current team against audit needs of the Council now and in the future. Where gaps are identified a training/ development plan should be created to align the audit team to the current and future audit needs of the Council.</p>	<p>There has been no skills assessment or formalised training programme for the Internal Audit team to ensure they have the necessary skills and development opportunities in place.</p> <p>Without this it may be impossible to identify the gaps in the skills of the Audit Team, against the</p>	<p>Not yet implemented</p>	<p>Once the Internal Audit strategy and vision have been created, the Internal Audit team should consider the skills and training needs of staff to ensure that the service can meet its strategic objectives.</p>

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
<p>In some cases it is not practical or possible to train an in house team to cover all of the specialist areas that an Internal Audit function needs to look at. Therefore, a review of the operating model is required to determine whether such skills and experience can be sought from within Council departments (on a secondment basis), from audit functions at other Councils or from private sector Internal Audit providers</p>	<p>audit requirements of the Council, to fill these as required with training, secondments or purchasing services.</p>		<p>Where gaps are identified a training/ development plan should be created to align the audit team to the current and future audit needs of the Council (see 2.2 below)</p> <p>As previously noted, it is not always practical or possible to train an in house team to cover all of the specialist areas required from an Internal Audit function. Some options for consideration to take this forward have been set out for management's consideration in Appendix B</p>
2.2 Training			
<p>Weaknesses were identified in audit files reviewed, see 2.3.3 and 2.3.4. There are therefore some immediate training needs within the audit team including articulation of risk and identification of controls</p>	<p>As noted in 2.1 above, there remains a lack of formalised training, e.g. skills matrices and training schedules, to ensure the Internal Audit team have the necessary skills and development opportunities in place.</p>	Not yet implemented	<p>Once the Internal Audit strategy and vision have been created, the Internal Audit team should consider the skills and training needs of staff to ensure that the service can meet its strategic objectives.</p> <p>Formalised training should be introduced to support the development of skills within the Internal Audit team. This will help ensure that the team have clear development goals and ensure that Internal Audit provides value to the Councils.</p>
3. Quality assurance and audit management			
3.1 Audit risk assessment and planning			
<p>The Audit, Risk and Anti-Fraud Manager should ensure a full risk assessment is undertaken, this should be kept up to date, discussed with senior management and the audit committee and should drive the audit plan.</p>	<p>Audit needs assessment is undertaken separately for each Council. The risk assessment identifies:</p> <ul style="list-style-type: none"> • reviews requested by management; • areas that have a high or medium rating on relevant risk registers; • those areas that have not been audited in over 3 years; and 	Fully Implemented	<p>No further recommendations noted.</p>

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
	<ul style="list-style-type: none"> • areas with major changes in systems. 		
<p>3.2 Audit scoping/ planning meetings</p> <p>These should be mandated in the audit manual and held for all audits to ensure auditors gain a more detailed understanding of the area under review and the key risks. This also helps auditors to build rapport with auditees and manage expectations. The Strategic Management Team should support this approach.</p>	<p>We confirmed with discussion from staff that audit scoping/ planning meetings are now undertaken prior to each review.</p> <p>However, the audit manual requires update to contain information regarding the procedures for audit scoping/ planning meetings. This will ensure it remains a useful tool to the Internal Audit team.</p>	Partially Implemented	<p>The audit manual should be updated to include information on the procedure for holding audit scoping/ planning meetings. This should include guidance over the identification of risks, which should be used across all audits to ensure consistency in approach.</p>
<p>3.3 Content of Audit Brief</p> <p>The audit brief should be expanded to include a section on limitations, generic risks should be tailored to the area under review and risks should be clearly articulated. The Audit, Risk and Anti-Fraud Manager should hold a risk session with auditors to help them more clearly articulate risks.</p>	<p>We obtained and reviewed a recent Internal Audit review audit brief and confirmed that the template contains information regarding limitations of scope and specific risks tailored to review.</p>	Fully Implemented	<p>No further recommendations noted.</p>
<p>3.4 Identification and assessment of controls</p> <p>Test papers require auditors to document controls but this requirement is not being complied with. Additional training and guidance should be provided to all auditors to enable them to effectively identify, document and assess controls to mitigate risks in the processes/ systems under review for all risks identified in the audit brief.</p>	<p>We obtained and reviewed a recent Internal Audit review working paper and confirmed that controls had been appropriately identified.</p> <p>However, we noted from discussion with the Internal Audit team that there has not been any additional training in place to ensure that controls are identified and assessed consistently across the service.</p>	Partially Implemented	<p>Additional training should be considered to ensure that auditors consistently identify key controls and assess their mitigation of identified risks in the audit brief.</p>

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
<p>3.5 Sample sizes</p> <p>Sample size guidance should be included in the audit manual to ensure consistency in sample testing across the audit team. Auditors should then justify sample sizes in working papers.</p>	<p>The audit manual requires update to provide details of sampling methodology and the sample sizes, which should be used by auditors. This will ensure it remains a useful tool to the Internal Audit team.</p>	<p>Not yet implemented</p>	<p>The audit manual should be updated to include detail on sample size selection. The sample sizes utilised by the auditors should be included within all working papers. This should be checked as part of the on-going quality assurance.</p>
<p>3.6 Review of reports and working papers</p> <p>The current review process should be reviewed to ensure adequate challenge, oversight and consistency of all reports and working papers.</p>	<p>We confirmed through discussion with the Audit, Risk and Anti-Fraud Manager that all reports and working papers are reviewed prior to being finalised. The Internal Audit team confirmed that there was regular challenge and oversight of their work.</p>	<p>Fully Implemented</p>	<p>No further recommendations noted.</p>
<p>4. Communication and Reporting</p>			
<p>4.1 Communication of audit risk assessment</p> <p>An audit risk assessment should be undertaken and the results of this should be discussed with relevant stakeholders and then used to inform the audit plan. The audit plan should be presented to the Management team and the Audit Committee in the context of this risk assessment.</p>	<p>It was noted through discussion of key Internal Audit stakeholders that better communication of what audit can offer would help add value to service areas (esp. in project and IT). This should be considered as part of the Internal Audit strategy and the skills assessment to ensure Internal Audit delivers value to the Councils.</p>	<p>Partially Implemented</p>	<p>Internal Audit should consider providing a brief of 'services offered' that can be communicated with senior management. This should help drive conversations in the planning of next year's audit plan to ensure that Internal Audit delivers value to the organisations.</p>

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
<p>4.2 Audit reports</p> <p>The Audit, Risk and Anti- Fraud Manager should review the report template and consider including an executive summary, limitations, the period covered by testing and good practice feedback. When reviewing audit reports the Audit, Risk and Anti-Fraud Manager should ensure adequate context is included in the action plans, and that actions are agreed and assigned a responsible officer and implementation deadline.</p>	<p>We obtained and reviewed a recent Internal Audit review audit report and confirmed that it includes an executive summary, the period covered was noted, as was good practice feedback. We noted that limitations of scope was not noted, however, on review of the audit brief, none were identified.</p>	Partially Implemented	<p>Although Limitations are noted within the scope section of the report, a separate limitations of scope section should be added to the audit report template and noted within all audit reports prepared.</p>
<p>4.3 Annual report</p> <p>The Audit, Risk and Anti-Fraud Manager should review the opinion statement in the annual audit report and update this where necessary to reflect the requirements of the PSIAS.</p>	<p>We obtained the Council's Annual Report for 2016/17 and confirmed that this had been reviewed and updated to reflect PSIAS requirements to state an overall opinion on the control environment at the Council.</p>	Fully Implemented	<p>No further recommendations noted.</p>
<p>4.4 Summary reporting</p> <p>The Audit, Risk and Anti-Fraud Manager should ensure all relevant KPIs are regularly reported to Strategic Management Team and the Audit Committee.</p>	<p>We confirmed through discussion with the Audit, Risk and Anti-Fraud Manager, and Senior Management, that KPI's are reported and discussed regularly at team management meetings, and with the Audit Committee as required. We obtained minutes of the Audit Committee and confirmed that progress against the audit plan is discussed and noted.</p>	Fully Implemented	<p>No further recommendations noted.</p>
<p>4.5 Reporting of audit recommendation implementation</p> <p>The Audit, Risk and Anti-Fraud Manager should make it clear to the Audit Committee that, at present, reporting of implementation is based on confirmation from the audit owner and no audit follow up procedures undertaken.</p>	<p>It was confirmed that evidence is now being sought to verify that recommendation has been followed up where required.</p> <p>We obtained and reviewed the minutes of the January 2016 Audit Committee and noted that a summary of the recommendations outstanding was discussed and noted.</p>	Fully Implemented	<p>No further recommendations noted.</p>

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
<p>4.6 Validation of implementation of audit recommendations</p> <p>Validation of implementation should be brought up to date as a matter of urgency, test papers should also be created so it is clear what evidence has been reviewed to confirm implementation. Guidance on the level of audit evidence deemed appropriate should also be included in the audit manual.</p>	<p>It was confirmed that evidence is now being sought to verify that recommendation has been followed up where required.</p> <p>We obtained and reviewed the minutes of the January 2016 Audit Committee and noted that a summary of the recommendations outstanding was discussed and noted.</p> <p>As noted above, the audit manual requires update. This should be undertaken to provide details of the level of evidence required to assess implementation of a recommendation raised. This will ensure it remains a useful tool to the Internal Audit team.</p>	<p>Partially Implemented</p>	<p>The audit manual should be updated to include detail on the level of audit evidence required to confirm the implementation of follow-up actions. This should be clearly documented in assessing implementation and checked as part of the on-going quality assurance.</p>

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
5. Quality, Tools and Performance Management			
5.1 Performance metrics			
<p>The Audit, Risk and Anti-Fraud manager should consider more formally tracking time between completion of fieldwork and reporting to ensure audit findings are reported and agreed in a timely manner.</p>	<p>It was confirmed through discussion with the Internal Audit team that audit time is tracked on an Excel spreadsheet. However, it was noted that this this will be taken forward through measuring this on the new audit software, <i>Teammate</i>.</p>	<p>Fully Implemented</p>	<p>No further recommendations noted.</p>
5.2 Time delays			
<p>Whilst the Audit, Risk and Anti-Fraud manager has implemented tracking of audit days and auditors are required to provide explanations of additional time/ audit days needed to complete audit work and seek approval, delays are still occurring and explanations are not always sufficiently documented. The Audit, Risk and Anti-Fraud manager should seek to get to the root causes of these delays and incorporating unexplained delays into staff performance appraisals. This also needs to be considered as part of the risk assessment and planning process to ensure that audits are as efficient and effective as possible.</p>	<p>As noted above, we confirmed through discussion with the Internal Audit team that audit time is tracked on an Excel spreadsheet. This allows for the Audit, Risk and Anti-Fraud Manager to better understand delays and mitigate them. From discussion with the Internal Audit team it was noted that though delays may occur these are now better managed and brought into the 1-2-1 meetings with individual auditors.</p>	<p>Fully Implemented</p>	<p>No further recommendations noted.</p>
5.3 Audit tools and technology			
<p>The audit team should consider implementing an electronic audit management tool to document audits to enable greater efficiency. They should also commence the use of Idea before knowledge gained through the training is lost and consider what other tools would be useful in the context of the Internal Audit strategy and vision.</p>	<p>A piece of audit management software, <i>Teammate</i>, was procured to enable electronic management and documentation. This is in the process of being completely embedded to ensure all audit documentation is in one place.</p> <p>It was noted through discussion with the Internal Audit team that investment in key pieces of technology continues to be an issue. Staff noted that there are issues in computer hardware, which may contribute to inefficiencies in the service.</p>	<p>Partially Implemented</p>	<p>Internal Audit and Strategic Management should carefully consider investment in key pieces of audit technology. Hardware allowing staff to work flexibly and collaboratively may increase their efficiency and that of the service.</p>

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
<p>5.4 Sharing knowledge and good practices across Councils</p> <p>The Internal Audit team should consider how they can better share knowledge and good practice across the two Councils where relevant. This is a key benefit of the shared service that is currently not being fully realised.</p>	<p>We confirmed through discussion with the Internal Audit, Risk and Anti-Fraud manager that there is a standard agenda item at monthly audit meetings to discuss shared knowledge and good practice across the Councils.</p> <p>However, it was noted through discussion with key audit stakeholders that this is an area where they would like to see greater emphasis to ensure that lessons learnt, efficiencies and good practice can be shared across the shared service.</p>	<p>Partially Implemented</p>	<p>Internal Audit should consider how benchmarking and good practice can be better shared with key audit stakeholders. Discussion of this as a standard agenda item at all planning and feedback meetings, should be considered. In addition, knowledge sharing could be fostered through greater integration of audit work across the Councils (subject to confidentiality).</p>

Appendix B - Pros and Cons of various Internal Audit Delivery Models

<i>Model</i>	<i>Advantages</i>	<i>Disadvantages</i>
<p>Full in-house</p> <p>Full in-sourcing is more viable where a ready supply of competent Internal Auditors are available from the local employment market. It can be perceived as inflexible from a budgetary perspective and in the local government sector prone to low levels of staff turnover. The main advantages from having solely in-house staff come from deep relationships with the authority and the development of extensive corporate memory for the team.</p>	<ul style="list-style-type: none"> • Continuity of Staff • Corporate Memory • Council relationships • Represents Value for Money where good staff are available and in post 	<ul style="list-style-type: none"> • Limited staff turnover and fresh insights • Restricted access to specialisms • No scope to flex down service costs • In some councils functions become old fashioned and fail to attract new talent and ideas • Limited resilience if staff are absent for any period of time
<p>Co-sourcing</p> <p>Co-sourcing is the current preferred model for resourcing Internal Audit services in London, facilitating both flexibility in budget management and resourcing for the service. Importantly it allows access to specialist auditors on demand and facilitates knowledge sharing with in-house teams.</p>	<ul style="list-style-type: none"> • Maintains succession of the function with an in-house team and retains corporate memory • With the right partner it provides access to a wide range of specialist skills as and when required without incurring the full time employment costs • Allows skills transfer to the in-house team • Provides access to a firm's auditing capability to help develop the in-house team's approach. The costs of the continued enhancement of that approach is borne by the co-sourced partner • Allows flexibility within the service budget • Provides resilience and flexibility in the resourcing model 	<ul style="list-style-type: none"> • Continuity of staff can be low • Specialist skills will be priced at a higher rate than the cost for delivering basic audit work

<i>Model</i>	<i>Advantages</i>	<i>Disadvantages</i>
<p>Outsource</p> <p>Full-outsourcing, involves all of the team transferring to a third party and the head of Internal Audit being provided by the third party. It can be an expensive solution with less flexibility, and is potentially only viable where co-sourcing cannot be established.</p>	<ul style="list-style-type: none"> • Transfer of management failure risk to a 3rd party • Provides access to resources where in-sourcing is not viable • Gives scope for specialist inputs • Gives access to a firm brand to accredit the function • Allows budget flexibility 	<ul style="list-style-type: none"> • Perception that it can be lower cost but this is not always the case • Limited corporate memory within the team • Continuity of staff can be low • Can lead to conflicts of interest if the same provider firm is asked to perform advisory work • No skills transfer to an in-house team • The head of Internal Audit may not be as embedded or knowledgeable of the organisation, as would be the case with an in-house or co-source model
<p>Shared services</p> <p>Many public sector organisations are looking at the scope to share services. This can provide a more efficient and cost-effective alternative to carrying the cost of a service alone. Effective sharing of services can range from an informal agreement to service the needs of combined entities, through to a formal joint working arrangements across process, activity and location.</p>	<ul style="list-style-type: none"> • Can provide good Value for Money if set up correctly • Enables development of specialist skills where there is increased volume • Permits economies of scale for team development • Provides resilience and flexibility in the resourcing model 	<ul style="list-style-type: none"> • Tailor made service can be sacrificed • Staff may not like changes to their working terms and conditions to harmonise process and performance across joined teams leading to inefficiency • Without scale or an external partner the ability to access specialist resources or resource flexibility may be limited
<p>Arms-length bodies, management buy outs or joint ventures</p> <p>Further along the spectrum lies the creation of Arms-Length Bodies as separate legal entities to service the demand created by the abolition of the in-house service. The vehicles available for this include wholly owned subsidiary companies, management buy-outs or joint venture organisations with private sector partnership.</p> <p>This model may be the end evolution of the shared service model set out above.</p>	<ul style="list-style-type: none"> • More cost effective if created on a commercial basis • Ability to trade in open market conditions and generate revenue • Unlimited development opportunities if successful in the market place 	<ul style="list-style-type: none"> • Any performance issues for the in-house resources would undermine a commercial entity • Likely to require significant change to staff conditions TUPE'd over, for example pension sacrifice • Established market might be difficult to break into without a clear differentiation of the offering or price point

Appendix C – Key points to consider

There are a number of questions that both Council's should consider, independently and in collaboration, to help make a decision on what the best model would be for Internal Audit.

These include:

- Are both Councils aligned in their vision, culture and what they want from Internal Audit?
- If both Councils have a different vision and need from Internal Audit can enough flexibility be built into the current model to deliver both?
- Our review has identified the need for strong leadership of the internal audit function to help set the vision and deliver the changes desired by both Councils and the service. To help deliver the change could an interim senior internal audit resource be recruited? If so this individual could help shape the future vision and what model would be the best fit for both councils.
- The team currently has limited resilience due to its size and full in-house set up. Any future model needs to consider resilience, flexibility and development opportunities for staff.
- There is currently no use of apprentices or graduate trainees to support the service. There is an opportunity to create a new generation of auditors in the team, which would be cost effective and bring new ideas and thinking to the team.
- Is there an appetite to expand/merge the shared service with another established partnership in Kent or even London (the vicinity of both Councils would make this possible)?
- Even with greater capacity provided by an expanded shared service/partnership it is likely that access to specialist skills would still be required? Any new model must be able to address this need either through the partnership or through access to an organisation who can provide such specialists

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ACTION PLAN FROM PWC FOLLOW UP REVIEW OF INTERNAL AUDIT

Issue	Proposed Action	Implementation Date	By whom
<p>Organisation and Independence A vision and strategy for the Internal Audit service should be drawn up with input from key stakeholders and senior management. The vision should set out what role Internal Audit will play within the Council and the strategy should ensure that Internal Audit's objectives are clear and expectations are managed.</p>	<p>The new Audit Manager will prioritise developing a vision and strategy for Internal Audit once in post</p>	<p>January 2019</p>	<p>Audit Manager</p>
<p>Organisation and Independence The Internal Audit Strategy should be updated to identify all conflicts of interest within the service and appropriate mitigating actions</p>	<p>Audit Charter to be updated and taken to Audit Committee for approval</p>	<p>January 2019</p>	<p>Audit Manager</p>
<p>Audit Team Consideration should be given to the skills and training needs of the Internal Audit team to ensure that the service can meet its strategic objectives</p>	<p>A skills assessment of the Internal Audit team is to be drawn up</p> <p>A training programme for the team to be developed</p>	<p>October 2018</p> <p>October 2018</p>	<p>Audit Manager</p>
<p>Quality Assurance and Audit Management The audit manual should include information on the procedure for holding audit scoping meetings. It should include guidance over the identification of risks to ensure a</p>	<p>Audit manual to be updated</p>	<p>October 2018</p>	<p>Audit Manager</p>

consistent approach. It should also include detail of sample size selection.			
Communication and Reporting A separate section should be added to the audit report template to capture limitations of scope	Audit report template to be updated	September 2018	Audit Manager
Communication and Reporting The audit manual should be updated to include detail on the level of audit evidence required to confirm the implementation of follow-up actions	Audit manual to be updated	September 2018	Audit Manager
Quality, Tools and Performance Management Internal Audit should consider how benchmarking and good practice can be better shared with key audit stakeholders	Template for scoping and feedback meetings to be amended to include benchmarking and good practice	September 2018	Audit Manager

REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE 2017/18

Audit Committee - 19 July 2018

Report of the: Chief Finance Officer

Status: For Consideration

Key Decision: No

This report supports the Key Aim of Effective Delivery of the Corporate Plan

Portfolio Holder Cllr. John Scholey

Contact Officer Adrian Rowbotham, Ext. 7153

Recommendation to Audit Committee: That Members approve the Annual Self-Assessment Review of the Effectiveness of the Audit Committee 2017/18.

Reason for Recommendation: An effective Audit Committee contributes to robust governance and overall effectiveness of the Council. The self-assessment indicates that the Committee has conducted itself in compliance with good practice and therefore effective in delivering its terms of reference remit.

Introduction and Background

- 1 It is considered good governance practice to have a process for evaluating a committee's performance. Members of this committee have accepted the underlying principals requiring the Audit Committee to measure the robustness of its own performance, not least, because of its oversight role for Internal Audit, Risk Management, Governance and Internal Control. Current governance arrangements for Local Councils issued by CIPFA in compliance with the Accounts and Regulations 2015 require that the Audit Committee be assessed annually, in order to determine its effectiveness and identify areas for further development.
- 2 This report puts forward proposals for assessing the achievements for the Audit Committee for the year 2017/18. The reasons for measuring the Committee's achievements and details of how this can be done are set out below.

Details of the Process

- 3 The process incorporates the recommended self-assessment checklist taken from the CIPFA guide "Audit Committees - Practical Guidance for Local Authorities"

Agenda Item 12

- 4 The self-assessment checklist (attached as an Appendix to this report) has been amended where necessary to reflect local needs or customs. To facilitate and expedite the process, the checklist has been completed as far as possible drawing from the work of the Committee in relation to its terms of reference using the evidence available from the work of the Committee during 2017/18. The checklist incorporates the following eight key issues that the Committee is required to measure its achievements against.
- **Terms of Reference** - Does it comply with best practice?
 - **Internal Audit Process** - Is there sufficient oversight by the Committee?
 - **External Audit Process** - Is there sufficient involvement?
 - **Membership** - Does it comply with good practice requirements?
 - **Meetings** - Frequency and robustness
 - **Training** - Is it fit for purpose?
 - **Administration** - Is the Committee supported by relevant officers?
 - **Compliance** - With Public Sector Internal Audit Standards (PSIAS)

Questionnaire for Members of the Audit Committee

- 5 In addition to the above, a separate questionnaire has been sent to each member of the Committee in order to obtain their individual views on the workings of the Committee and their own personal contribution to the work of the Committee. The responses to the questionnaire will be used to improve relevant aspects of the workings of the Committee where appropriate. The responses to the questionnaire can be found in Appendix B.

Next Steps

- 6 The Committee is requested to go through the checklist as a group during the meeting and consider the details set out in it and make any additional comments or changes it deems necessary.
- 7 On completion of the checklist, areas for further development could be transferred into an action plan identifying the key areas for further development and relevant timescales. The action plan would then be taken to Council for agreement.

Key Implications

Financial

This report has no financial implications.

Legal Implications and Risk Assessment Statement

This report has no additional legal implications.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Value for Money and Asset Management

An effective Audit Committee will contribute towards the overall management of the Council and would help to improve good value for money in service provision.

Conclusions

The outcome of the review indicates that the Audit Committee substantially meets the requirements of existing CIPFA code and therefore is making a valuable contribution towards effective governance, good internal controls and the management of business risk within the Council.

Appendices

Appendix A - Self-Assessment Checklist

Appendix B - Results of questionnaire response from Members

Background Papers:

[CIPFA guide “Audit Committees - Practical Guidance for Local Authorities” \(2013 Edition\)](#)

[The Accounts and Audit \(England\) Regulations 2015](#)

[Public Sector Internal Audit Standards.](#)

**Adrian Rowbotham
Chief Finance Officer**

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Self-assessment Checklist - Assessing the Effectiveness of the Audit Committee
2017/18

ISSUE	YES	NO	N/A	COMMENT
1. Terms of Reference				
1.1 Have the Committee's terms of reference been approved by full Council?	✓			
1.2 Do the terms of reference follow the CIPFA model	✓			
2. Internal Audit Process				
2.1 Does the Committee approve the strategic audit approach and annual programme?	✓			
2.2 Is the work of Internal Audit reviewed regularly?	✓			
2.3 Are summaries of quality questionnaires from managers reviewed?	✓			These are currently reviewed annually in the Annual Internal Audit Report.
2.4 Is the Annual Audit Report, from the Head of Audit, presented to the Committee?	✓			
3. External Audit Process				
3.1 Are reports on the work of External Audit and other inspection agencies presented to the Committee?	✓			
3.2 Does the Committee input into the external audit programme?	✓			The Committee has opportunities to influence the external audit programme through attendance of the external auditor at its meetings.
3.3 Does the Committee ensure that officers are acting on and monitoring action taken to implement recommendations?	✓			

ISSUE	YES	NO	N/A	COMMENT
3.4 Does the Committee take a role in overseeing:				These are part of the Committee's standard terms of Reference
• Risk Management strategies	✓			
• Annual Governance Statement	✓			
• Anti-fraud arrangements	✓			
• Whistle-blowing strategies	✓			
4. Membership				
4.1 Has the membership of the Committee been formally agreed and a quorum set?	✓			
4.2 Is the Chair free of executive or scrutiny functions?	✓			
4.3 Are members sufficiently independent of the other key Committees of the Council?	✓			
4.4 Have all members' skills and experiences been assessed and training given for identified gaps?	✓			Training for members took place in June 2017.
4.5 Can the Committee access other committees as necessary?	✓			
5. Meetings				
5.1 Does the Committee meet regularly?	✓			At least 4 times a year
5.2 Are separate, private meetings held with the external auditor and the internal auditor?	✓			There are arrangements in place to facilitate a meeting with the External Auditor if necessary. A separate meeting with the Audit Manager is held as necessary. The Chairman also routinely meets jointly with the Audit Manager and the Chief Finance Officer.

ISSUE	YES	NO	N/A	COMMENT
5.3 Are meetings free and open without political influences being displayed?	✓			
5.4 Are decisions reached promptly?	✓			
5.5 Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	✓			
5.6 Does the Committee have the benefit of attendance of appropriate officers at its meetings?	✓			Other officers attend as and when necessary, or on request of the Chairman
6. Training				
6.1 Is induction training provided to members?	✓			Yes, the Council provides induction training for all members. Additional training has been provided to the committee.
6.2 Is more advanced training available as required?	✓			Training as requested by members was provided in June 2017.
7. Administration				
7.1 Does the authority's S151 Officer or deputy attend all meetings?	✓			The Chief Finance Officer (Section 151 Officer) attends all meetings.
7.2 Are the key officers available to support the Committee?	✓			
8. PSIAS				
8.1 Has the Committee been advised of the requirements of the Internal Audit Standards?	✓			

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Questionnaire for the Members of the Audit Committee

Question	Response
1 How do you think the Audit Committee has performed over the course of the year?	A: The committee is well balanced and has looked at a good cross section of items. B: I think its performance has been considered and thorough. C: well D: very well
2 Do you think the Audit Committee has addressed the correct subjects? If not, what subjects would you like to see included in its agenda?	A: yes B: yes, cannot think of anything to add. C: yes D: yes
3 What is your view on the quality of the reports received?	A: very detailed and concise. B: good C: very good D: good
4 Is the level of detail correct?	A: yes B: in the main, yes C: yes D: Not sure, not qualified to comment on correct details.
5 What improvements would you like to see in reports?	A: happy with how they are. B: nothing I can think of. D: not sure
6 Is it helpful to have Grant Thornton present at 3 meetings?	A: yes B: yes very much so. C: probably only 2 meetings needed. D: This should be left to the discretion of the Chairman.
7 a) Do you think your personal contribution has been effective? b) What steps do you think could be taken to improve your personal contribution further?	A: yes B: I hope so. Still learning but with growing experience. C: The current reports and audits appear to be so good it does feel like I'm being a passenger at times - but better than there being problems with audit which requires more input. D: (a) I think so. D: (b) I think we should arrange a separate short training session regarding the Statement of Accounts.
8 Any other comments	

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Audit Committee 2018/19 - Work Plan (as at 21/06/18)

	19 July 2018	16 October 2018	8 January 2019	28 March 2019
Internal Audit (Irregularities to be reported confidentially as & when necessary)	Internal Review of Effectiveness of Internal Audit 2017/18 Internal Audit Annual Report 2017/18	Internal Audit 2018/19 - 1 st Progress Report Report on Internal Audit Recommendations Outstanding	Internal Audit 2018/19 - 2 nd progress report Report on Internal Audit Recommendations Outstanding	
Risk Management		Risk Management Report Draft Strategic Risk Register		
Accounts and External Audit	Statement of Accounts 2017/18 External Review of Internal Audit - Update		Annual Audit Letter 2017/18 Housing Benefit Subsidy 2017/18	

	19 July 2018	16 October 2018	8 January 2019	28 March 2019
Other	Counter-Fraud & Compliance Report 2017/18 Audit Committee Terms of Reference Review of the Effectiveness of the Audit Committee	Members' Allowance Scheme Monitoring Affordable Housing Company - Risk Assessment		