

18 July 2019 at 7.00 pm

Conference Room, Argyle Road, Sevenoaks  
Despatched: 10.07.19



# Audit Committee

## Membership:

Chairman, Cllr. McGarvey; Vice-Chairman, Cllr. Mrs. Morris  
Cllrs. Barnes, Brown, Firth, Kitchener, London, Pender 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. <b>Minutes</b> To agree the Minutes of the meeting of the Audit Committee held on 28 March 2019 and the Special Audit Committee on 21 May 2019 as a correct record.	(Pages 1 - 8)	
2. <b>Declarations of Interest</b> Any declarations of interest not already registered.		
3. <b>Actions from Previous Meeting</b>	(Pages 9 - 10)	
4. <b>Responses of the Council, Cabinet or Council Committees to the Committee's reports or recommendations (if any)</b>		
5. <b>Audit Committee Terms of Reference and Member Development</b>	(Pages 11 - 20)	Adrian Rowbotham, Russell Heppleston Tel: 01732 227153, Tel: 01732227053
6. <b>Statement of Accounts 2018/19</b>	(Pages 21 - 170)	Alan Mitchell Tel: 01732227483
7. <b>Local Code of Corporate Governance</b>	(Pages 171 - 178)	Martin Goodman Tel: 01732227245
8. <b>Counter Fraud And Compliance Report 2018/19</b>	(Pages 179 - 186)	Glen Moore Tel: 01732227471

- |     |   |                   |  |
|-----|---|-------------------|--|
| 9.  | <b>Internal Audit Annual Opinion 2018/19</b>                      | (Pages 187 - 214) | Russell Heppleston<br>Tel: 01732227053 |
| 10. | <b>Internal Audit Update Report 2019/20</b>                       | (Pages 215 - 230) | Russell Heppleston<br>Tel: 01732227053 |
| 11. | <b>Review of the Effectiveness of the Audit Committee 2018/19</b> | (Pages 231 - 244) | Russell Heppleston<br>Tel: 01732227053 |
| 12. | <b>Workplan</b>   | (Pages 245 - 246) |  |

#### 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](mailto:democratic.services@sevenoaks.gov.uk).

**AUDIT COMMITTEE**

Minutes of the meeting held on 28 March 2019 commencing at 7.00 pm

Present: Cllr. Grint (Chairman)

Cllr. Reay (Vice Chairman)

Cllrs. Ball, Clack, Layland, McArthur and Searles

Apologies for absence were received from Cllrs. Purves and Williamson

Cllr. Scholey was also present.

33. Minutes

Resolved: That the minutes of the meeting of the Audit Committee held on the 8 January 2019 be agreed and signed as a correct record.

34. Declarations of Interest

No additional declarations of interest were made.

35. Actions from the Previous Meeting

The actions were noted.

36. Responses of the Council, Cabinet or Council Committees to the Committee's reports or recommendations (if any)

There were none.

37. Member Development - Procurement and Contract Procedures

At the meeting of the Audit Committee on the 17 October 2018 it was agreed that a series of Member Development Briefings would be scheduled for the remaining 2018/19 meetings.

The Committee welcomed the Chief Officer Environmental and Operation Services who delivered a presentation on Procurement and contract procedures, focusing on the Council's procurement strategy. Members were invited to ask questions. It was advised that small and medium sized businesses were not necessarily discouraged by the paperwork involved in putting forward their services, and smaller and more local firms were sometimes awarded contracts. Members questioned the resources needed to meet the EU procurement requirement of advertising contracts worth over a certain amount in the Supplement to the Official Journal of the European

Union (OJEU). They were advised that the Council was required to pay a small fee to advertise and also to consider the working hours taken to submit the advertisement.

It was confirmed that the questionnaire and evaluation to be completed when submitting an application was adapted for different sizes and types of contracts and safety assurance was provided through health and safety reports. Members were advised that contractors would be informed before the bid of how their application would be evaluated. Preference would not usually be given to providers who had previously been awarded contracts, except for small jobs and minor maintenance for which the Council had a database of suitable providers. Members questioned whether procurement procedures formed part of the Council's Value for Money Assessment. The representative in attendance from the Council's external auditors Grant Thornton explained how although procurement procedures weren't considered directly and had not been identified as an area for specific attention this year, they were considered from an assurance perspective.

Resolved: That the report be noted.

38. External Audit - Annual Audit Plan 2018/19

The Chairman welcomed Sebastian Evans from Grant Thornton who presented the External Audit Plan for the year ending 31 March 2019. He advised that of the significant risks considered included, fraudulent transactions in the revenue cycle and management override of controls were presumed risks and non-specific to Sevenoaks. Other risks considered were valuation of land and buildings, valuation of pension fund net liability and significant risk relating to Governance arrangements over future income generation.

The external auditor noted that the introduction of a significant risk was not a result of any deterioration of the Council's ability to meet Audit requirements. The potential significant risk was associated with income generation, specifically the new companies Quercus 7 and Quercus Housing. Members were advised that Quercus 7 and Quercus Housing did have organisational experience however their role in the market place presented a potential risk and their statuses as independent companies. It was noted that the respective risk assessments had been reviewed by the relevant Advisory Committees and were managed by the Council through the Trading and Guarantor Boards (comprised of Cabinet Members). Members acknowledged that the Audit fee had decreased since last year and were advised that fees were closely linked to efficiency year on year however the level of service provided by the external auditor remained the same.

Resolved: That the report be noted.

39. Internal Audit Charter 2019

The Interim Audit Manager introduced a report which proposed an updated Internal Audit Charter from 2019. The Charter set out the authority, responsibility and

scope of the Audit Service. The Charter incorporated recommendations made by the 2017 External Quality Assessment and had been fully updated and to ensure compliance.

Members questioned the extent to which Council employees were made aware of the work of the Audit Service and were advised that the Audit Team were engaging primarily with Managers to develop their understanding of internal audit and prepare them for upcoming audits in their sections. The Interim Audit Manager outlined the Audit team's future plan for increased engagement including an open day, training sessions and support relating to risk management.

Members approved of the changes made to the Charter and considered it to be easier to understand than the previous Charter.

Resolved: That the contents of the report be noted, and the revised Internal Audit Charter approved.

#### 40. Internal Audit Progress Report

The Interim Audit Manager presented the report which set out the progress made by the Internal Audit Team in delivering the Annual Internal Audit Plan 2018/19 and a broader update of the service and its developments. The Committee's attention was drawn to a new style of reporting on assurance projects in response to an Action requested by the Committee at the previous meeting. The Committee were advised that since the publishing of the agenda the Audit projects relating to Markets and Business Rates Systems Mapping had been finalised, the Payroll review and the ICT Audit Needs Assessment had moved to the draft report stage and the Private Sector Letting Scheme and Homelessness Reduction Act work had progressed to the fieldwork stage. The Interim Audit Manager was confident that the projects would be delivered by 30 April 2019.

It was confirmed that there had been no change in the resourcing of the Internal Audit Team since the last committee meeting however a restructure was being planned. Updates on the delivery of the plan, and findings of internal audit work would be reported throughout the year. A tabled document showed the Audit Plan progress and it was noted that despite have slightly underutilised the days allocated to the Audit Plan, output remained on track. It was also noted that the Interim Audit Manager's contract (a secondment with Mid-Kent) had been extended to cover 1 April 2019 to 31 March 2020.

Resolved: That the contents of the report and the progress made by the Internal Audit Team in delivering the 2018/19 Annual Internal Audit Plan be noted.

#### 41. Internal Audit Plan 2019/20

The Interim Audit Manager presented the report which detailed the Audit Plan work to be undertaken in 2019/20. The report also provided information related to

## Agenda Item 1

### Audit Committee - 28 March 2019

the planning process, outcomes of planning consultations and the resources necessary to deliver the plan. The Audit Committee is required through its Terms of Reference to consider and approve the plan each year.

*Action 1: The Internal Audit Plan 2019/20 is to be circulated to all Members in May.*

Resolved: That the draft Internal Audit Plan for 2019/20 be approved.

#### 42. Statement of Accounts 2018/19 - Establishment of Member Working Group

The Chief Finance Officer introduced a report outlining the plans for the Committee to set up a Member working group to review the 2018/19 draft Statement of Accounts. Members were advised that due to the upcoming election, they would be unable to set up the working group until Membership of the Audit Committee was known. It was suggested that a Special Audit Committee take place on 21 May 2019 to allow the Committee to form the Working Group and assign membership.

Resolved: That a Member Working group be set up at a special Audit Committee on 21 May 2019 after membership of the Committee has been agreed, to review the 2018/19 draft Statement of Accounts.

#### 43. Annual Governance Statement 2018/19

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 2018/19, which accompanied the Council's Accounts be agreed for signature by the Leader of the Council.

#### 44. Draft Audit Committee Annual Report 2018/19

The Committee considered the Chairman's annual report for submission to the Council meeting on 30 April 2019 which set out the scope and responsibility of the Committee and gave an overview of the meetings and reports considered. The Committee wanted to express their thanks to the Chairman, Officers and also their fellow Committee Members for their contribution over the past 4 years.

Resolved: That the report be commended to Council.

45. Work Plan

Members noted that they had found the training session on Procurement useful and questioned if any training sessions were planned for subsequent meetings. They were advised that there was no training planned for the meeting on 18 July 2019 however the Committee would be invited to select briefings for 2019/20 at the July meeting. Members wished to thank the Portfolio Holder for Finance for his continued presence and support at meetings of the Audit Committee.

THE MEETING WAS CONCLUDED AT 8.21 PM

CHAIRMAN



AUDIT COMMITTEE

Minutes of the meeting held on 21 May 2019 commencing at 7.36pm

Present: Cllr. McGarvey (Chairman)

Cllr. Morris (Vice Chairman)

Cllrs. Barnes, Brown, Firth, Kitchener, London, Pender and Williamson

1. Declarations of Interest

No additional declarations of interest were made.

2. Statement of Accounts 2018/19 - Establishment of Member Working Group

The Chief Finance Officer introduced a report outlining the plans for the Committee to set up a Member working group to review the 2018/19 draft Statement of Accounts. 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) a Member Working group be set up to review the 2018/19 draft Statement of Accounts; and
- b) membership of the working group to be Councillors McGarvey (Chairman), Cllr Mrs Morris, Cllr Kitchener and Cllr Pender.

THE MEETING WAS CONCLUDED AT 7.40 PM

CHAIRMAN

This page is intentionally left blank

**ACTIONS FROM THE MEETING HELD ON 20.06.2019**

<b>Action</b>	<b>Description</b>	<b>Status and last updated</b>	<b>Contact Officer</b>
ACTION 1	That the Interim Audit Manager circulate the Internal Audit Plan 2019/20 to all Members in May.	An introductory pack will be sent around to all Members in July. This will include the audit plan in full, and also some information about the Audit Partnership.	Russell Heppleston Ext. 7053

This page is intentionally left blank

## AUDIT COMMITTEE TERMS OF REFERENCE & MEMBER DEVELOPMENT

### Audit Committee - 18 July 2019

Report of	Audit Manager
Status	For Consideration
Key Decision	No
Portfolio Holder	Cllr Matthew Dickins
Contact Officers	Russell Heppleston, Ext. 7053 Adrian Rowbotham, Ext. 7153

---

#### Recommendation to Audit Committee: That

- a) the Audit Committee Terms of Reference (appendix A) is **noted**
- b) the Audit Committee **agrees** the briefing topics from the Member Development Programme (appendix A) for 2019/20

---

**Reason for recommendation:** In October 2018 the Audit Committee agreed a programme of development & training. This programme, which is aligned to the Committee Terms of Reference, is designed to complement the core functions and responsibilities of the Committee, and to enhance the overall effectiveness of the Committee. As this is the first substantive meeting of the Audit Committee post-elections, the report (appendix A) gives the Members the opportunity to select the topics of briefings for the year, and to consider the Terms of Reference alongside the work plan for the year.

---

#### Introduction and Background

- 1 At the Annual Council meeting on the 12 May 2019, Members agreed the Terms of Reference for the Audit Committee. The Terms of Reference set out the overarching roles and responsibilities of the Committee. This is the first substantive meeting of the Audit Committee post-elections and therefore gives the Committee an opportunity to consider the Terms of Reference alongside the development programme and work plan.
- 2 In October 2018 the Audit Committee agreed a programme of development & training. This programme, which is aligned to the Committee Terms of Reference, is designed to complement the core functions and responsibilities of the Committee, and to enhance the overall effectiveness of the Committee. Each year the Committee selects (or taking Officer advice, agrees) the topics to be included in the work plan for the year.

## Agenda Item 5

### **Key Implications**

#### Financial

There are no financial implications associated with this decision.

#### Legal Implications and Risk Assessment Statement

There are no legal or risk implications associated with this decision.

#### 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 - Terms of Reference & Member Development (2019-20)

### **Background Papers**

The Member development programme was reported and adopted by Audit Committee in October 2018 and is publically available on the Council's [website](#).

**Adrian Rowbotham**  
**Chief Finance Officer**

## Audit Committee - Member Development Programme

### Introduction

The Programme sets out the continued professional development for Members of the Audit Committee. The topics included in the programme are drawn down directly from the Committee Terms of Reference. In addition, the development programme seeks to provide comprehensive coverage of both those terms and the wider expectations of an Audit Committee as described by CIPFA.

### Audit Committee: Member Development Programme

The table below sets out 10 overall themes, with related topics that can be covered as part of training, development or briefing sessions. Each theme is linked to the Terms of Reference and includes suggested timings based on previous training history, and also relevance to the work plan:

Development Theme & Specific Topics	Ref to ToR	Suggested Timing	Training History
<b>Internal Audit Activity</b> <ul style="list-style-type: none"> <li>- Committees role in relation to internal audit</li> <li>- Ensuring an effective internal audit process                             <ul style="list-style-type: none"> <li>- Internal audit planning</li> </ul> </li> </ul>	b, c, d, e	Jan - March in advance of audit plan	June 2017 (part covered)
<b>Reviewing the Annual Governance Statement</b> <ul style="list-style-type: none"> <li>- The AGS within the Council's governance                             <ul style="list-style-type: none"> <li>- Specific topics within the AGS</li> </ul> </li> <li>- Comparative review of AGS across local gov</li> </ul>	k, m, n	Jan - March	
<b>Countering Fraud</b> <ul style="list-style-type: none"> <li>- Whistleblowing</li> <li>- Investigative practice</li> <li>- Fraud risks and the Councils response                             <ul style="list-style-type: none"> <li>- Governance polices</li> </ul> </li> </ul>	g,	Flexible	June 2017
<b>Risk Management</b> <ul style="list-style-type: none"> <li>- Ensuring effective risk management</li> <li>- Specific strategic and operational risks                             <ul style="list-style-type: none"> <li>- Risk management strategy</li> <li>- Local government risk outlook</li> </ul> </li> </ul>	k	July - In advance of risk management report in October	September 2015 & June 2017
<b>Role of internal and external audit</b> <ul style="list-style-type: none"> <li>- Differences in internal/external audit role                             <ul style="list-style-type: none"> <li>- Assuring effective external audit</li> <li>- External auditor appointment</li> </ul> </li> </ul>	h, i, j, l	Flexible	June 2015 (Role of IA)  June 2017 (part covered)
<b>Understanding local authority accounts</b> <ul style="list-style-type: none"> <li>- General understanding of accounts</li> <li>- Specific update/annual issues</li> <li>- Comparative review of LG accounts</li> </ul>	q, r, s	n/a - working group	June 2017
<b>Procurement and contract procedures</b> <ul style="list-style-type: none"> <li>- Contract Procedure Rules                             <ul style="list-style-type: none"> <li>- Procurement risks</li> </ul> </li> <li>- Effective procurement processes</li> </ul>	k	Flexible	March 2019

Development Theme & Specific Topics	Ref to ToR	Suggested Timing	Training History
<b>Assurance on value for money</b> <ul style="list-style-type: none"> <li>- How external audit assess VfM conclusion</li> <li>- Measuring value for money in local government</li> <li>- Data quality and performance measurement</li> </ul>	i	Flexible	January 2019
<b>Internal Audit Standards</b> <ul style="list-style-type: none"> <li>- IA Charter &amp; Strategy</li> <li>- Public Sector Internal Audit Standards</li> <li>- Specific work on IA conformance &amp; the EQA</li> </ul>	a, f	March - July in advance of the Opinion	
<b>Standards / Members Code of Conduct</b> <ul style="list-style-type: none"> <li>- Committees role in Standards                             <ul style="list-style-type: none"> <li>- The Kent Code</li> <li>- Hearing practices</li> </ul> </li> </ul>	o, p	Flexible	

**Putting the programme into practice**

**Invitations** - Briefings are designed to support the effective operation of the Audit Committee, however, ensuring effective governance is something that all Members have a role in. Invites for certain briefings will be made available to all Members, at the request of the Chairman.

**Resource** - Most (if not all) of the briefings can be delivered by our own experienced and qualified officers. If we do not have the skills internally or the areas is specialised, bringing in some external expertise is possible.

**Delivery** - Briefings are delivered as the first substantive item on the meeting agenda. This maximises attendance and helps to ensure the content is proportionate and focussed.

**Timing** - Sessions designed to complement future items on the work plan - making suggestions to enable healthy challenge when the reports are considered. I.e. briefing on the audit plan in Jan in advance of the plan approval in March. Briefings for the year are allocated in the first meeting of the Committee in the each new year (July)

## **AUDIT COMMITTEE - Terms of Reference**

### **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 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.

**Audit Committee 2019/20 - Work Plan (as at 20/06/19)**

	18 July 2019	17 September 2019	28 January 2020	26 March 2020
<b>Internal Audit</b> (Irregularities to be reported confidentially as & when necessary)	Internal Audit Annual Report & Annual Opinion 2018/19 Internal Audit Progress Report 2019/20	Internal Audit Progress Report 2019/20 Audit Partnership Self-Assessment against PSIAS	Internal Audit Progress Report 2019/20	Internal Audit Progress Report 2019/20 Internal Audit Progress Plan 2020/21
<b>Risk Management</b>		Risk Management Update 2019		
<b>Accounts and External Audit</b>	Statement of Accounts 2018/19		External Audit - Annual Audit Letter 2018/19 External Audit - Housing Benefit Subsidy 2018/19	Annual Governance Statement 2019/20 External Audit - Annual Audit Plan 2019/20 Statement of Accounts 2019/20 - Establishment of Member Working Group

	18 July 2019	17 September 2019	28 January 2020	26 March 2020
<b>Other</b>	Audit Committee Terms of Reference Local Code of Corporate Governance Review of the Effectiveness of the Audit Committee 2018/19 Counter Fraud and Compliance Report 2018/19	Members' Allowance Scheme Monitoring		Annual Report to Council
<b>Members Development Briefings</b>	<b>Topics to be selected for 2019/20 (Appendix A)</b>	<b>Proposed: Internal Audit Standards</b>	<b>Proposed: Risk Management</b>	<b>Proposed: Reviewing the Annual Governance Statement</b>

This page is intentionally left blank

**STATEMENT OF ACCOUNTS 2018/19 - OUTCOME OF EXTERNAL AUDIT**

**Audit Committee - 18 July 2019**

Report of Chief Finance Officer

Status: For Decision

Key Decision: No

---

**Executive Summary:** This report sets out the external audit findings of the 2018/19 accounts.

---

**Portfolio Holder** Cllr. Matthew Dickins

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

---

**Recommendation to Audit Committee: That**

- (a) the Statement of Accounts 2018/19 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 11 June 2019.
- 2 The external audit of the accounts began on 3 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 2018/19.
- 3 The external auditors, Sarah Ironmonger and Sebastian Evans from Grant Thornton, will attend the meeting to discuss their report on the 2018/19 audit. The accounts are required to be signed off by 31 July 2019.
- 4 The Audited Statement of Accounts 2018/19 is attached at Appendix D.
- 5 A copy of the letter of representation from the Council to the external auditors is attached at Appendix B.

## Agenda Item 6

- 6 The format of the statement is similar to 2017/18 and has been compiled in line with International Financial Reporting Standards (IFRS), there was no new significant reporting requirement for 2018/19.

### Review by Working Group

- 7 At the meeting of the working group on 11 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 at 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 £33,320, 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 McCloud Judgement: In December 2018, the Court of Appeal ruled that there was age discrimination in the judges' and firefighters' pension schemes where transitional protections were given to scheme members. It has since been identified that this ruling is likely to affect Local Government Pension Schemes (LGPS) as well (of which Sevenoaks District Council is part, through the Kent County Pension Fund), although the impact had been uncertain due to a potential appeal from Central Government against the ruling. However, the Supreme Court rejected permission to appeal the ruling on 27 June 2019.
- 13 The IAS19 report previously issued as at 31 March 2019 (dated 16 April 2019) did not make an allowance for the McCloud judgement, due to uncertainty at the time of how this judgement may affect LGPS members' past or future service benefits.
- 14 However, given the uncertainty, to assess the materiality of the potential impact of this issue, in June 2019 management commissioned a summary impact assessment, from the scheme actuary (Barnett Waddingham) for Kent County Council. Based on this, the impact on total liabilities was estimated at £983,000

- 15 Management have advised that the additional £983,000 will not be recognised as a liability, on the basis that:
- The value is not considered material to the Council.
  - They believe that there is too much uncertainty in the estimation to warrant a specific quantitative amount.

However, management acknowledge that the McCloud judgement may have a future impact on the pension liability. On the basis of the points above, management have disclosed a management critical judgement with respect to this decision.

- 16 The changes required to the accounts, all of which were identified by officers and notified to the auditors are explained below:
- a. In Note 24c, Subjective Analysis, a reclassification amendment has been made of £2,289,000 from employee expenses to other service expenses relating to pension interest;
  - b. In Note 24e, Subjective Analysis, the prior year comparatives had not been included; the current year table had been mistakenly published twice;
  - c. Within the Grant Income note the table for receipts in advance had been omitted from the first draft.

#### Value for Money

- 17 Grant Thornton have issued an unqualified conclusion to the 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 2019.
- 18 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**

- 19 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.
- 20 The Finance Team completed the 2018/19 financial statements on time despite operating with a reduced team.

#### **Key Implications**

##### Financial

There are no financial implications.

## Agenda Item 6

### 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.

### **Appendices**

Appendix A - Grant Thornton Audit Findings Report 2018/19

Appendix B - Letter of Representation

Appendix C - Report from the Member Working Group

Appendix D - Audited Statement of Accounts 2018/19

### **Background Papers**

None.

**Adrian Rowbotham**  
**Chief Finance Officer**



# The Audit Findings for Sevenoaks District Council

Page 20  
Year ended 31 March 2019  
5 July 2019



Agenda Item 6

# Contents



## Your key Grant Thornton team members are:

Page 26

Sarah Ironmonger  
Engagement Lead

T: +44 (0) 1293 554 072

E: [Sarah.L.Ironmonger@uk.gt.com](mailto:Sarah.L.Ironmonger@uk.gt.com)

Sebastian Evans  
Audit Manager

T: +44 (0)20 7728 3451

E: [sebastian.evans@uk.gt.com](mailto:sebastian.evans@uk.gt.com)

Ibukun Oluwasegun  
In-charge Accountant

T: +44 (0)20 7728 3116

E: [Ibukun.O.Oluwasegun@uk.gt.com](mailto:Ibukun.O.Oluwasegun@uk.gt.com)

## Section

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

## Appendices

- A. Action plan
- 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# Headlines

This table summarises the key findings and other matters 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 2019 for those charged with governance.

<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li> <li>• 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.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), 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 completed on site during June and July. Our findings are summarised on pages 4 to 16. We have not identified any adjustments to the financial statements that have impacted the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix D or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> <li>- receipt of management representation letter;</li> <li>- review of the final set of financial statements; and</li> <li>- remaining testing areas identified in our summary, and final internal quality review of work performed.</li> </ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
<p><b>Value for Money arrangements</b></p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Sevenoaks District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. <b>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 17 to 20.</b></p>
<p><b>Statutory duties</b></p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>• To certify the closure of the audit.</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties. 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 Report 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 and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its 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; and
- While we have not sought to place direct reliance on the work performed by your internal auditors, their reports and draft Audit Manager opinion have been used to inform our risk assessment process

We have not had to alter or change our audit plan, as communicated to you on 28 March 2019.

## 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 18 July 2019, as detailed in Appendix D. These outstanding items include:

- receipt of management representation letter;
- review of the final set of financial statements;
- finalising our testing over valuation of the pension fund liability; property, plant and equipment; investment properties; financial instruments disclosures and processing management responses to follow up queries raised during the course of fieldwork and initial quality review;
- Final internal quality review of work performed.

## 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 to reflect the fact that gross revenue expenditure in the 2018/19 draft accounts (£55,543,000) is substantially lower than the 2017/18 equivalent (£59,017,000) on which our original determination was based. We detail in the table below our determination of materiality for Sevenoaks District Council. As performance materiality and trivial matters thresholds have been calculated by reference to materiality, these have changed in line with this. However, the basis for our benchmark (i.e. 2% of gross revenue expenditure) remains the same.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£1,110,000	<ul style="list-style-type: none"> <li>• This is based on 2% of your gross revenue expenditure for the year 2018/19, based on your draft accounts. This benchmark was chosen based on our knowledge of District Councils, your reporting framework and how stakeholders use your accounts.</li> </ul>
Performance materiality	£832,000	<ul style="list-style-type: none"> <li>• This is based on 75% of the materiality benchmark.</li> </ul>
Trivial matters	£55,000	<ul style="list-style-type: none"> <li>• 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.</li> </ul>

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### The revenue cycle includes fraudulent transactions (rebutted)

Under ISA (UK) 240 there is a rebuttable 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 the revenue streams at the Council, 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. You face external scrutiny of your spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We have

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- where identified, tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

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

Page 29

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of land and buildings

The Council revalues its land and buildings on a five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£39 million of property, plant and equipment in 2018/19) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

### Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register

Our audit work has not identified any issues in respect of valuation of land and buildings.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

### 4 Valuation of the pension fund net liability Auditor commentary

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£87 million in the Council's balance sheet in 2018/19) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report.
- assessed the impact of the McCloud judgement (detailed on page 9) and considered management's representations and disclosures with respect to this.

Our consideration of the McCloud ruling identified a difference of opinion with management and an unadjusted misstatement see Appendix B. No other issues were noted from our testing.

# Other risks identified

## Risks identified in our Audit Plan

5

### Group Accounts

In 2015, you set up Quercus7 Limited, a subsidiary that will act as a Trading Company.

In 2017 this was followed by Quercus Housing Limited, a subsidiary to enable you to provide affordable housing funded from S106 contributions.

Quercus 7 began trading in January following its first property acquisition. While Quercus Housing is not currently trading, there is a probability that material capital acquisitions occur before year end in one or both entities.

As these subsidiaries continue to expand, the preparation of group accounts will need to be considered going forward.

## Commentary

### Auditor commentary

We have:

- updated our understanding of the capital and operational activity taking place within Quercus7 and Quercus Housing;
- evaluated management's determination and disclosures over whether group accounts are required or not.

Management has assessed that, with respect to Quercus 7 Limited;

*The company has acquired its first commercial property but due to the value of the acquisition group accounts are not required. During the year the company were given credit facilities for business expenses totalling £106,569. Quercus 7 Limited also has secured long term borrowing of £321,866.*

...and with respect to Quercus Housing Limited;

*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 £77,679.*

Based on the immateriality of the subsidiaries' activities and financial position for the year ended 31 March 2019, we agree with management's determination that these are not material from the perspective of the Council and that group accounts are not required.

In June 2019, both entities made significant acquisitions. While these do not impact the 2018/19 statement of accounts (as they occurred after the 31 March 2019 year end), the size of these is likely to crystallise the need for group accounts in 2019/20.

# Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p data-bbox="71 520 107 552">1</p> <p data-bbox="94 730 136 890" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 33</p> <p data-bbox="147 512 398 536"><b>McCloud judgement</b></p> <ul data-bbox="147 555 748 1382" style="list-style-type: none"> <li data-bbox="147 555 748 954">• In December 2018, the Court of Appeal ruled that there was age discrimination in the judges' and firefighters' pension schemes where transitional protections were given to scheme members. It has since been identified that this ruling is likely to affect LGPS pension schemes as well (of which Sevenoaks District Council is part, through the Kent County Pension Fund), although the impact had been uncertain due to a potential appeal from Central Government against the ruling. However, the Supreme Court rejected permission to appeal the ruling on 27 June 2019.</li> <li data-bbox="147 970 748 1153">• The IAS19 report previously issued as at 31 March 2019 (dated 16 April 2019) did not make an allowance for the McCloud judgement, due to uncertainty at the time of how this judgement may effect LGPS members' past or future service benefits.</li> <li data-bbox="147 1169 748 1382">• However, given the uncertainty, to assess the materiality of the potential impact of this issue, in June 2019 management commissioned an summary impact assessment, from the scheme actuary (Barnett Waddingham) for Kent County Council. Based on this, the impact on total liabilities was estimated at £983,000.</li> </ul>	<ul data-bbox="786 512 1420 991" style="list-style-type: none"> <li data-bbox="786 512 1420 600">• Management have advised that the additional £983,000 will not be recognised as a liability, on the basis that:                             <ul data-bbox="887 616 1420 887" style="list-style-type: none"> <li data-bbox="887 616 1420 671">• The value is not considered material to the Council.</li> <li data-bbox="887 687 1420 775">• They believe that there is too much uncertainty in the estimation to warrant a specific quantitative amount.</li> <li data-bbox="887 791 1420 887">• However, management acknowledge that the McCloud judgement may have a future impact on the pension liability.</li> </ul> </li> <li data-bbox="786 903 1420 991">• On the basis of the points above, management will disclose a management critical judgement with respect to this decision.</li> </ul>	<ul data-bbox="1480 512 2157 1126" style="list-style-type: none"> <li data-bbox="1480 512 2157 735">• Our view is that this represents a present obligation; the Supreme Court's rejection of the Government's permission to appeal crystallises this and management has been provided with a specific valuation by their actuary, meaning the value can be reliability measured.</li> <li data-bbox="1480 751 2157 807">• The decision as to how to account for this matter is ultimately a decision for each local Council.</li> <li data-bbox="1480 823 2157 951">• Although the estimated value provided by the scheme actuary is not material in isolation, the value of this is significantly above our triviality threshold for reporting findings to Those Charged with Governance.</li> <li data-bbox="1480 967 2157 1054">• We have sought additional representations from management, which will be included in the management letter of representation.</li> <li data-bbox="1480 1070 2157 1126">• We consider this matter to represent an unadjusted misstatement. See Appendix B</li> </ul>

# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for NNDR appeals - £2.7m</b>	The Council is responsible for repaying a proportion of successful rateable value appeals. Management uses an external organisation, Analyse Local, to calculate the level of provision required. Analyse Local's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	We reviewed: <ul style="list-style-type: none"> <li>• appropriateness of the underlying information used to determine the estimate</li> <li>• impact of any changes to valuation method</li> <li>• consistency of estimate against peers/industry practice</li> <li>• reasonableness of decrease in estimate</li> <li>• adequacy of disclosure of estimate in the financial statements.</li> </ul> Our audit work is complete. Our work has not identified any issue in the key judgements and estimates applied.	Green

Assessment  
●  
 Green  
 Agenda Item 6

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment
<p><b>Land and Buildings – Other - £14.6m</b></p>	<p>Land and buildings (£14.6m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head &amp; Eve to complete the valuation of properties as at 31 March 2019. Land and buildings are revalued when management considers there to be a material change in the value but as a minimum every five years.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £2.726m.</p> <p>Management have considered the year end value of non-valued properties. Management’s assessment of assets not revalued has identified no material change to the property’s value.</p> <p>There were no impairments on Land and buildings in 2018/19.</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> <li>• assessment of management’s expert,</li> <li>• completeness and accuracy of the underlying information used to determine the estimate</li> <li>• impact of any changes to valuation method</li> <li>• consistency of estimate against Gerard Eve report (auditor’s expert)</li> <li>• reasonableness of decrease in estimate</li> <li>• adequacy of disclosure of estimate in the financial statements.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center; color: green; font-size: 24px;"><b>Green</b></p>

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment																								
<b>Net pension liability – £87.5m</b>	<p>The Council’s net pension liability at 31 March 2019 is £87.5m (PY £91.4m). The Council uses Barnet Waddington LLP to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme/these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £6.7m net actuarial loss during 2018/19.</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> <li>assessment of management’s expert</li> <li>assessment of actuary’s roll forward approach taken, detail work undertaken to confirm reasonableness of approach</li> </ul> <table border="1" data-bbox="862 491 2143 901"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.35%</td> <td>2.35% - 2.45%</td> <td>● Green</td> </tr> <tr> <td>Pension increase rate</td> <td>2.40%</td> <td>2.40% - 2.45%</td> <td>● Green</td> </tr> <tr> <td>Salary growth</td> <td>3.9%</td> <td>3.1%-4.35%</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Males currently aged 65</td> <td>22 yrs</td> <td>20.6 – 23.4 yrs</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Females currently aged 65</td> <td>24 years</td> <td>23.2 -24.8 yrs</td> <td>● Green</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>completeness and accuracy of the underlying information used to determine the estimate</li> <li>reasonableness of the Council’s share of LPS pension assets</li> <li>reasonableness of decrease in estimate</li> <li>assessment of the likely impact of the Guaranteed Minimum Pension benefits between males and females</li> <li>adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>Our audit work has not identified any significant issues in relation to the pensions disclosure. The actuarial assumptions made by Barnett Waddingham LLP and accepted by the Council were reviewed by the audit team. Our review concluded that the assumptions made by Barnett Waddingham LLP were reasonable following discussions with the Council.</p> <p>As noted on page 9, there is a significant finding with respect to the potential impact of the McCloud ruling.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.35%	2.35% - 2.45%	● Green	Pension increase rate	2.40%	2.40% - 2.45%	● Green	Salary growth	3.9%	3.1%-4.35%	● Green	Life expectancy – Males currently aged 65	22 yrs	20.6 – 23.4 yrs	● Green	Life expectancy – Females currently aged 65	24 years	23.2 -24.8 yrs	● Green	<p style="text-align: center;">● <b>Green</b></p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.35%	2.35% - 2.45%	● Green																								
Pension increase rate	2.40%	2.40% - 2.45%	● Green																								
Salary growth	3.9%	3.1%-4.35%	● Green																								
Life expectancy – Males currently aged 65	22 yrs	20.6 – 23.4 yrs	● Green																								
Life expectancy – Females currently aged 65	24 years	23.2 -24.8 yrs	● Green																								

Agenda Item 6

Page 36

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment
Level 2/3 investments	<p><u>Level 2 investments</u></p> <p>The Council hold investments in a number of financial institutions, building societies, other local authorities and money market funds, which are collectively valued on the balance sheet as at 31 March 2019 at £21.3m, their carrying value. The Council are also required to estimate the fair value of these assets. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the fair value, management use the following techniques:</p> <ul style="list-style-type: none"> <li>• instruments with quoted market prices – the market price</li> <li>• other instruments with fixed and determinable payments – discounted cash flow analysis.</li> </ul> <p>In the case of Level 2 investments, these are based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. In the case of the Level 2 investments held, management have determined that the fair value and the carrying amount are the same.</p> <p><u>Level 3 investments</u></p> <p>The Council have a further investment in UK Municipal Bond Agency and the Council’s trading subsidiary Quercus 7 Ltd – the combined value of these as at 31 March 2019 is £0.265m (31 March 2018, £0.051m). The increase reflects increased investment in Quercus 7 Ltd by Sevenoaks District Council. The fair value is determined by unobservable inputs for the asset.</p>	<p>Our work over Financial Instruments disclosures is still in progress. We have not identified any issues with respect to the basis for fair value, or the carrying amounts held.</p>	

Page 37

Agenda Item 6

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process and key assumptions to be reasonable

# 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.

# 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 <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>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 issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed. However, nine councillor representations were not received at the time of the audit. We have made a recommendation to management on page 22.</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council, which is included in the Audit Committee papers.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to financial institutions with whom the Council holds investment balances. This permission was granted and the requests were sent. All but one of these requests were returned with positive confirmation, however one request was not received so we undertook alternative procedures, including a review of bank statements at the time of the investment's renewal and maturity.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>.Our review found no material omissions in the financial statements.</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management were provided.</li> </ul>

Page 39

Agenda Item 6

# Other responsibilities under the Code

Issue	Commentary
<b>1 Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D</p>
<b>2 Matters on which we report by exception</b>	<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"> <li>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</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
<b>3 Specified procedures for Whole of Government Accounts</b>	<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> <p>Note that work is not required as the Council does not exceed the threshold.</p>
<b>4 Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Sevenoaks District Council in the audit opinion, as detailed in Appendix D.</p>

# Value for Money

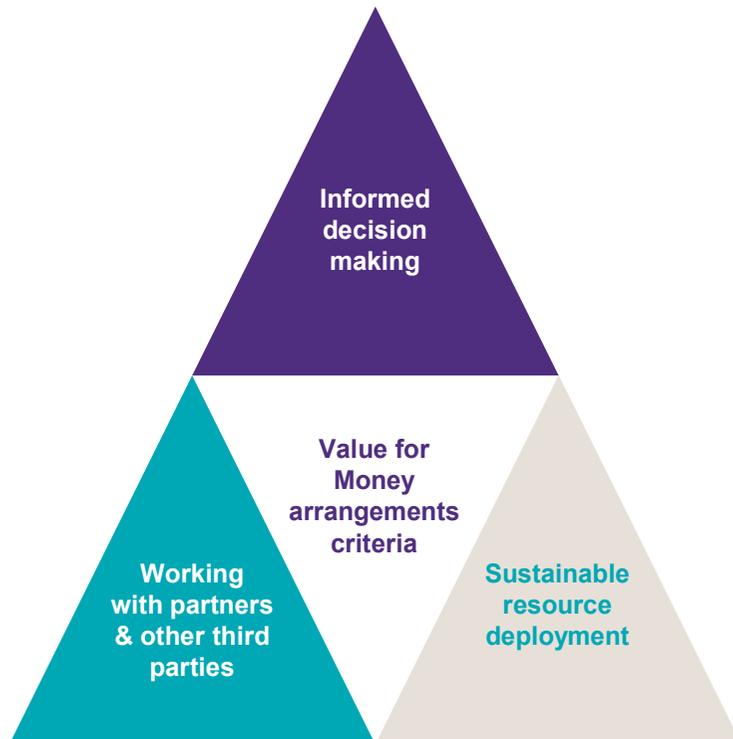
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 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 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2019.

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.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

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

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

- You delivered another strong financial performance during 2018/19 achieving a surplus on Provision of Services of £0.085 million against a net revenue budget of £14.687 million. You have arrangements in place that monitor your performance and report key variances to the Cabinet quarterly.
- 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 2018/19 to 2028/29. The MTFS sets out your key budget assumptions which were reported to the Cabinet in February 2019 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. From 2018/19, the MTFS included a ten year balance sheet alongside the revenue budget.
- 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 2019) your 2019/20 balanced budget includes contribution of £391k from your stabilisation reserve which stands at £7.938 million as at 31 March 2019. In setting your provisional budgets to 2028/29, you estimate using a total of £2.729 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.
- We have considered your governance arrangements over future income generation overleaf. While the generation of income through your property investment company (Quercus 7) is in line with the aims of your Property Investment Strategy, and through your affordable housing company Quercus Housing, continues as an institutional priority, you are also seeking to identify new income developments through your Income Generation Group (and, where applicable, through project-specific working groups such as in relation to Income Strip funding).
- Following elections in May 2019, there is debate as to the extent to which members should be directly involved in the income generation process.

Your risk management arrangements are adequate. The Audit Committee receives periodic reports on your strategic risks; the last report was presented in September 2018. We have observed a good level of challenge and discussion during Committee meetings.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 19 and 20.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness 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 agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## 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.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p><b>1 Governance arrangements over future income generation</b></p> <ul style="list-style-type: none"> <li>Income generation forms a key part of your 10-year budget; income from property investment income is planned to increase from £0.735 million per year in 2018/19 to £1.655 million per year in by 2028/29.</li> <li>Alongside the existing Property Investment Strategy, during the year, an Income Generation Group (IGG) (led by the Head of Finance) was set up for the purpose of looking at existing income streams but also as a forum for identifying new opportunities and putting business cases in place for consideration at a Strategic Management Team level.</li> <li>Your financial planning has historically been accurate and robust, and you have a track record of achieving your planned results. Moreover, through the Property Investment Strategy you already have organisational experience of property investment more broadly. However, all forms of income generation carry an element of risk and need to be supported by informed decision making.</li> <li>Part of your wider income generation plans will be delivered through subsidiary companies. In 2015, you set up Quercus7 Limited, a subsidiary that will act as a Trading Company. In 2017 this was followed by Quercus Housing Limited, a subsidiary to enable you to provide affordable housing funded from S106 contributions.</li> <li>Quercus 7 began trading in January following its first property acquisition. While Quercus Housing is not currently trading, there is a probability that significant capital acquisitions occur before year end in one or both entities.</li> <li>Although fully owned by Sevenoaks District Council, the two subsidiaries are legally separate entities. The acquisition strategy set out in the Property Investment Strategy aims to integrate the activities of Quercus7 (although not Quercus Housing, which is funded separately through S106 contributions) into your overall strategy, and so governance and oversight arrangements will need to be effectively integrated to ensure appropriate value for money is being obtained.</li> </ul>	<ul style="list-style-type: none"> <li>We reviewed your project management and risk assurance frameworks to understand how you are identifying, managing and monitoring risks and considered these arrangements against good practice. We also considered the composition, structure and outputs of the IGG and how effective these arrangements are in enabling you to obtain value for money from income generation opportunities.</li> <li>The governance arrangements for Quercus 7 Ltd and Quercus Housing are defined by way of a shareholders agreement and guarantors agreement respectively.</li> <li>Although there were no significant acquisitions during the review period, two significant acquisitions took place after year end, being:             <ul style="list-style-type: none"> <li>An Industrial unit in Canterbury, purchased through Quercus 7 for £2.19m in June 2019</li> <li>Purchase of 14 flats in Westerham (within the District) for £3.6m in June 2019, with 9 flats to be let by Quercus Housing for affordable housing and 5 flats let by Quercus 7 for private sector rental.</li> </ul> </li> <li>Both of these acquisitions were in line with the your strategic aims and in line with your income generation targets</li> <li>You have also demonstrated that you are willing to consider, but ultimately reject opportunities which fall outside your areas of expertise. During the year, an 'Income Strip' scheme was considered, which would have potentially committed the Council to a long term financing arrangement outside of the Borough. A member group was created to consider this and professional advice sought. The specifics of the arrangement were rejected, for a number of reasons including the level of risk involved in this specific scheme, although future arrangements of this nature have not been ruled out if circumstances support this. The ability to actively consider and reject options shows a level of institutional maturity with respect to income generation.</li> </ul> <p>...continued overleaf</p>	<p><b>See next slide</b></p>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings (continued)	Conclusion
<p><b>1 Governance arrangements over future income generation</b> See <i>previous slide</i></p>	<ul style="list-style-type: none"> <li>The income generation group is comprised of the Head of Finance, who acts as Chair, and a cross-section of senior management (Corporate Customer Service and Delivery Manager, Corporate Projects; Building Control Partnership Manager; Head of Direct Services; Head of Economic Development and Property.)</li> <li>The first Income Generation Group took place in December 2018, although the Group has not yet met since.</li> <li>In May 2019, the a local election took place. Members were elected for all wards within the District. Our discussions with management have identified that there are a number of members who have expressed interest in generating ideas with respect to income generation.</li> <li>Currently, there is no member representation on the Income Generation Group. The extent to which members should have a direct role in management functions with respect to Income Generation is a matter of local judgement; good practice seen elsewhere indicates that there is no 'one size fits all' approach.</li> <li>As part of our publication <i>In Good Company (September 2018)</i> we commented that while Local Authority Trading Companies can represent an effective way of promoting commercialisation in a way that is consistent with a local authorities aims, there is an important balance to be struck to ensure that the governance structure is set up in such a way that member input is fostered positively, but in a sustainable way that is not disproportionately influenced by electoral cycles.</li> <li>The Income Generation Group does not currently have a formal of terms of reference. Management have already identified the need for this, and there is a plan to have a terms of reference established in time for the group's next scheduled meeting in July.</li> <li>It is noted that the Income Generation Group aims to input into the budget setting process for 2020/21</li> <li>As part of the determination of a terms of reference, management will need to define what the long term approach will be to member involvement.</li> </ul>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>We recommend that as part of the establishment of a terms of reference for the Income Generation Group, the relationship between elected Councillors and officers is clearly defined in such a way that fosters member interest and expertise, but in such a way that is not disproportionately influenced by electoral cycles.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>As part of the budget process each year, Members are asked for their income generation ideas. Where a Member has particular expertise relating to a specific idea, they may be invited to attend an Income Generation Group meeting to provide additional information on that idea.</li> </ul>

# 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. The following non-audit services were identified which were charged in relation to the financial year, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefit Grant	16,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £16,000 in comparison to the total fee for the audit of £33,230 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
[none identified]	-	-	N/A

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

# Action plan

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	<ul style="list-style-type: none"> <li><b>Related party transactions Note 30 – declarations not received</b> Councilors are required to make declarations to the Council. We noted nine instances where a Councilor had not returned a declaration. In each instance, the Councilor in question had submitted a declaration in 2017/18 which did not identify any material related party transactions. While this reduces the risk of unidentified transactions to a limited degree, management still need to assure themselves that no such transactions exist for 2018/19.</li> </ul>	<ul style="list-style-type: none"> <li>Management should seek further assurances that those nine individuals who did not return declarations do not have material undisclosed or unidentified relationships with Sevenoaks District Council. This should include, but not necessarily be limited to, reviewing all committee minutes for those meetings attended by these councilors to determine whether they have declared any additional interests during the 2018/19 financial year.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>Management made several attempts using different methods to obtain returns for all members including members who did not stand in the May 2019 elections. If no response was received the previous years return was used as a basis but for all related party stakeholders a detailed review of Company House records as well as our own Financial system was conducted. All related party transactions found were disclosed in the Financial Statements</li> </ul>
2	●	<ul style="list-style-type: none"> <li><b>Value for Money</b> Following the May 2019 Council elections, in response to councillor interest in income generation, management is considering the extent to which member involvement could be integrated into the Income Generation Group, which is to resume meeting in July 2019, alongside establishing a terms of reference.</li> </ul>	<ul style="list-style-type: none"> <li>We recommend that as part of the establishment of a terms of reference for the Income Generation Group, the relationship between elected Councillors and officers is clearly defined in such a way that fosters member interest and expertise, but in such a way that is not disproportionately influenced by electoral cycles.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>As part of the budget process each year, Members are asked for their income generation ideas. Where a Member has particular expertise relating to a specific idea, they may be invited to attend an Income Generation Group meeting to provide additional information on that idea.</li> </ul>

## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# 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?
<b>Subjective Analysis, Note 24.c</b>	A reclassification amendment has been made of £2,289,000 from employee expenses to other service expenses relating to pension interest. This error was identified by the Council.	<ul style="list-style-type: none"> <li>N/A – management identified this disclosure change and have adjusted for it.</li> </ul>	✓
<b>Subjective Analysis, Note 24.e</b>	The prior year comparatives had not been included; the current year table had been mistakenly published twice.	<ul style="list-style-type: none"> <li>Correct the table to include prior year comparatives.</li> </ul>	✓
<b>Grants Income note</b>	Notes for receipts in advance had been omitted in the first version of the accounts. The error was identified by the Council and has been adjusted.	<ul style="list-style-type: none"> <li>N/A – management identified this disclosure change and have adjusted for it.</li> </ul>	✓

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.

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 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	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>1 • <b>McCloud judgement</b></p> <p>In December 2018, the Court of Appeal ruled that there was age discrimination in the judges' and firefighters' pension schemes where transitional protections were given to scheme members. It has since been identified that this ruling is likely to affect LGPS pension schemes as well (of which Sevenoaks District Council is part, through the Kent County Pension Fund), although the impact had been uncertain due to a potential appeal from Central Government against the ruling. However, the Supreme Court rejected permission to appeal the ruling on 27 June 2019.</p> <ul style="list-style-type: none"> <li>• The IAS19 report previously issued as at 31 March 2019 (dated 16 April 2019) did not make an allowance for the McCloud judgement, due to uncertainty at the time of how this judgement may effect LGPS members' past or future service benefits.</li> <li>• However, given the uncertainty, to assess the materiality of the potential impact of this issue, in June 2019 management commissioned an summary impact assessment, from the scheme actuary (Barnett Waddingham) for Kent County Council. Based on this, the impact on total liabilities was estimated at £983,000.</li> </ul>	983	983	983	<p>Management has made the decision not to amend as the value is not considered material to the Council, and that there is too much perceived uncertainty in the estimation to warrant a specific quantitative amount.</p> <p>A management critical judgement has been disclosed with respect to this.</p>
<b>Overall impact</b>	<b>£983,000</b>	<b>£983,000</b>	<b>£983,000</b>	

## Impact of prior year unadjusted misstatements

There were no prior year unadjusted misstatements that have a bearing on the 2018/19 audit.

# Fees

We confirm below our final fees charged for the audit.

## Audit Fees

	Proposed fee	Final fee
Council Audit	£33,230	£33,230*
<b>Total audit fees (excluding VAT)</b>	<b>£33,230</b>	<b>£33,230</b>

- The fees reconcile to the financial statements as follows. The difference reflects the fact that management accrued for the Q4 based on historic billing, rather than based on the full fee. The overall difference is trivial and we do not propose an adjustment.

fees per financial statements **£35k**  
 Over-accrual **£2k**  
 total fees per above **£33k**

Page 49

## Non Audit Fees

Fees for other services	Fees
<b>Audit related services:</b>	16,000**
• Certification of Housing Benefit Grant	
<b>Non-audit services</b>	-
	<b>£16,000</b>

\* Final fee equals planned fee as set out in the Audit Plan issued 14 March 2019

\*\* Certification of housing benefit subsidy will be completed by the November 2019 deadline. Fee is indicative and may be subject to change upon completion of work.

# Audit opinion - draft

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 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves 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 2018/19.

Our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 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 2018/19; 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.

### 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 Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, being 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 audit 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 Annual Financial Report, Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Audit opinion

## 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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 15, 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 2018/19, for being satisfied that they 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## 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](http://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 2019.

### 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

We 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 2019.

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 Sevenoaks District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

# Audit opinion

## Use of our report

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.

[Signature]

**Sarah L Ironmogner**

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

Page 52



© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

This page is intentionally left blank

Our ref: GT-SDC1819  
 Your ref:

Grant Thornton UK LLP  
 2nd Floor  
 St John's House  
 Haslett Avenue West  
 Crawley  
 RH10 1HS

18 July 2019

Dear Sirs

**Sevenoaks District Council**  
**Financial Statements for the year ended 31 March 2019**

This representation letter is provided in connection with the audit of the financial statements of Sevenoaks District Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 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 Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented 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 any 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. 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.

Chief Executive: Dr. Pav Ramewal

Council offices  
 Argyle Road  
 Sevenoaks  
 Kent TN13 1HG

t 01732 227000  
 e information@sevenoaks.gov.uk  
 DX30006 Sevenoaks  
 www.sevenoaks.gov.uk



## Agenda Item 6

- vi. 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.
- vii. 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.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention for the reasons noted on the schedule. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- 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 Council 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.
- xviii. 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.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - 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.

- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. 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.
- xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. 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**

- xxiv. 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**

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

**Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 18 July 2019.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

**Signed on behalf of the Governing Body**

Appendix B

## Audit Adjustments

### Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 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	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
<p>1 • <b>McCloud judgement</b></p> <p>In December 2018, the Court of Appeal ruled that there was age discrimination in the judges' and firefighters' pension schemes where transitional protections were given to scheme members. It has since been identified that this ruling is likely to affect LGPS pension schemes as well (of which Severnocks District Council is part, through the Kent County Pension Fund), although the impact had been uncertain due to a potential appeal from Central Government against the ruling. However, the Supreme Court rejected permission to appeal the ruling on 27 June 2019.</p> <ul style="list-style-type: none"> <li>The IAS19 report previously issued as at 31 March 2019 (dated 15 April 2019) did not make an allowance for the McCloud judgement, due to uncertainty at the time of how this judgement may affect LGPS members' past or future service benefits.</li> <li>However, given the uncertainty, to assess the materiality of the potential impact of this issue, in June 2019 management commissioned an summary impact assessment from the scheme actuary (Barnett Waddingham) for Kent County Council. Based on this, the impact on total liabilities was estimated at £983,000.</li> </ul>	983	983	983	<p>Management has made the decision not to amend as the value is not considered material to the Council, and that there is too much perceived uncertainty in the estimation to warrant a specific quantitative amount.</p> <p>A management critical judgement has been disclosed with respect to this.</p>
<b>Overall impact</b>	<b>£983,000</b>	<b>£983,000</b>	<b>£983,000</b>	

### Impact of prior year unadjusted misstatements

There were no prior year unadjusted misstatements that have a bearing on the 2018/19 audit.

© 2019 Grant Thornton UK LLP | Audit Partner: Sarah de Senneville, Deputy Partner | 2018-19

24

**Notes from the Audit Committee Working Group meeting, 11 June 2019**

**In Attendance:**

**Members:** Cllr. McGarvey (Chairman)

Cllr. Kitchener

Cllr. Morris

Cllr. Pender

**Officers:** Adrian Rowbotham, Chief Finance Officer

Alan Mitchell, Head of Finance

**Apologies:** None

The Head of Finance explained that the purpose of this working group is to assist the Audit Committee in fulfilling its terms of reference, namely

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies, including International Financial Reporting Standards (IFRS), have been followed and whether there are concerns arising from the financial statement or from the audit that need to be brought to the attention of the council.
- To approve the statutory statement of accounts when the deadline for approval does not allow approval by full council (though not anticipated this year)
- To consider the external auditors' report to those charged with governance on issues arising from the audit of the accounts and comments received from the district auditor.

As points 2 and 3 cannot be fulfilled until the Audit Committee, the purpose of this meeting is to support point 1.

The accounts themselves are a very complicated and technical document as they are produced to comply with the CIPFA code of practise as well as the relevant IFRS (International Financial Reporting Standards).

Draft accounts have to be published by 31 May. The draft accounts are then audited (the auditors are Grant Thornton or GT) and they will go over every aspect of the accounts to ensure they correctly comply with the code. Throughout the audit process they work closely with the Finance Team to ensure they have sufficient evidence on which to base their opinion.

## Agenda Item 6

They produce a management report which is then presented to the Audit Committee (on 19 July) which sets out their findings. Audit Committee Members will have the chance to ask the auditors any questions at that meeting.

If approved, the Chief Finance Officer and Audit Committee Chairman will then sign the accounts. The auditors themselves have until 31 July to sign the accounts.

The Member Working Group reviewed the Draft Statement of Accounts, discussing the document section by section.

### 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 the mitigating actions. Further information in relation to corporate risks are shared with Members at Committees during the year.

The Narrative Report is the area where there is flexibility as to what is included and how it is presented and is therefore the section of the accounts where the Member Working Group can recommend changes.

The Member Working Group commented that Chart 1 - Spending on front line services 2018/19 - was not easily read and would be improved if it was presented in the same way as Chart 2 - Funding Sources 2018/19. This change has been made to the final version of the Statement of Accounts.

The Member Working Group also recommended that mention of Sevenoaks Town Car Park should be included within the Cash Flow paragraphs as an example of the investment in property assets.

**ACTION:** Question to be raised at the Audit Committee on 18/07/19, as a matter of formality:

- Do the external auditors think that the main risks are covered?

### Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure 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 statutory requirements; this may be different from the accounting cost.

The Member Working Group worked through the statement and commented as to whether the sub totals and totals could be made clearer.

**ACTION:** The Head of Finance to speak to Grant Thornton regarding making sub totals and totals easier to understand for the reader of the accounts.

### 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 currently be used to fund expenditure or reduce local taxation) and other 'unusable' reserves. It 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. The Net Increase/Decrease line shows the statutory General Fund balance movements in the year following those adjustments.

The Member Working Group noted that Usable Reserves had increased from £23.725m to £25.057m.

### 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. Reserves are reported in two categories: the first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt); the second category of reserves represents those that the authority is not able to use to provide services - this category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

**ACTION:** Question to be raised at the Audit Committee on 18/07/19:

- Can the external auditors explain the position of the Local Government Pension liabilities and the differences in valuation methods used between the method used in the accounts and the method used for the triennial valuation?

### Cash Flow

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.

## Agenda Item 6

### Notes to the Core Statements

The Statement of Accounts includes 39 disclosure notes covering a wide range of areas.

The Member Working Group asked several questions which the Head of Finance answered and provided clarification on a number of the notes. Many figures were examined in detail, and for anyone unfamiliar with Local Authority financial reporting, it might help to remind Members that because a Local Authority is a net spender (on services etc) rather than a business that generates income for profit; the norm is to report income as a negative, and expenditure as a positive figure (Balance Sheet excepted).

### Review of the Grant Thornton Annual Audit Letter for year ending 31 March 2018

Subsequent to the meeting, the Audit Committee Chairman reviewed the Annual Audit Letter for the previous year and was satisfied that no remedial action is required.

### Member Working Group Conclusion

Upon overall review, Members were happy with the 2018/19 draft accounts. It was requested that a short report from the Working Group go back to the Audit Committee, alongside the presentation of the Accounts on 18 July 2019.

# STATEMENT OF ACCOUNTS

## 2018/2019



# Agenda Item 6

## CONTENTS

<i>Narrative Report</i>	3
<i>Statement of Responsibilities for the Accounts</i>	15
<b>CORE STATEMENTS</b>	
<b>COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</b>	16
<b>MOVEMENT IN RESERVES STATEMENT</b>	17
<b>BALANCE SHEET</b>	19
<b>THE CASH FLOW STATEMENT</b>	21
<i>Notes to the Core Statements</i>	22
1 <i>Expenditure and Funding Analysis</i>	22
2 <i>Accounting Policies</i>	23
3 <i>Accounting Standards that have been issued but not yet adopted.</i>	37
4 <i>Critical Judgements in Applying Accounting Policies</i>	37
5 <i>Prior Period Adjustment</i>	37
6 <i>Events After the Balance Sheet Date</i>	37
7 <i>Notes to the Expenditure and Funding Analysis</i>	38
8 <i>Adjustments Between Accounting Basis and Funding Basis Under Regulations</i>	39
9 <i>Transfers To/From Usable Reserves</i>	44
10 <i>Property, Plant and Equipment</i>	46
11 <i>Investment Properties</i>	50
12 <i>Financial Instruments</i>	52
13 <i>Inventories</i>	59
14 <i>Debtors</i>	59
15 <i>Cash and Cash Equivalents</i>	60
16 <i>Assets Held for Sale</i>	60
17 <i>Creditors and Receipts in Advance</i>	61
18 <i>Provisions</i>	62
19 <i>Usable Reserves</i>	62

20	<i>Unusable Reserves</i>	63
21	<i>Cash Flow Statement – Operating Activities</i>	67
22	<i>Cash Flow Statement – Investing Activities</i>	68
23	<i>Cash Flow Statement – Financing Activities</i>	68
24	<i>Segmental Reporting and Reconciliation Subjective Analysis</i>	69
25	<i>Trading Operations</i>	74
26	<i>Members’ Allowances</i>	76
27	<i>Officers’ Remuneration</i>	76
28	<i>External Audit Fees</i>	77
29	<i>Grant Income</i>	78
30	<i>Related Party Transactions</i>	79
31	<i>Capital Expenditure and Capital Financing</i>	81
32	<i>Leases</i>	82
33	<i>Impairment Losses</i>	83
34	<i>Termination Benefits</i>	83
35	<i>Defined Benefit Pension Schemes</i>	83
36	<i>Contingent Liabilities</i>	88
37	<i>Contingent Assets</i>	89
38	<i>Heritage Assets</i>	89
39	<i>Highway Infrastructure Assets</i>	89
	<b>THE COLLECTION FUND</b>	90
	<b>GLOSSARY OF TERMS</b>	94
	<b>ANNUAL GOVERNANCE STATEMENT 2018/19</b>	99

# Agenda Item 6

## 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 2019. 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 2018/19

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 "useable", 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.

### 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. Last year we set a budget for 2018/19 that continued to reflect our financial self-sufficiency, having achieved this in 2016/17, ahead of our projected timescale. Then, as of now, we were clear that we would continue to need to make savings but we have continued to invest in assets that help us to generate more of our own income. Along with our existing acquisitions, these are already generating strong returns, and helping us to maintain our financial independence.

We continue to be very proud at the recognition we continue to win from our peers regarding the success of our organisation. We were one of the first organisations globally to be awarded Investors in People Platinum in 2015, and retained this status during our reassessment in February 2019. In December 2018 we were winners in the Leadership and Management category at the international Investors in People awards in London.

The Government is continuing to review how Business Rates income will be distributed in the future and as part of that review, Kent was one of the areas that was successful in bidding to be a Business Rates Retention Pilot area in 2018/19. By being part of the pilot, this Council was able to retain an additional £712,000 of Business Rates income which has been transferred to the Budget Stabilisation Reserve for the longer term benefit of the Council. However, the future Business Rates distribution method and the financial effect on this Council remains unclear.

During 2016/17 we began preparations for the construction of a much needed hotel in Sevenoaks town centre; this opened in July 2018, leased to Premier Inn and located adjacent to Sevenoaks station, with 80 rooms. This will benefit the economy of the town centre and provide valuable income for the Council. We have redeveloped an existing car park to take on additional capacity in the town centre renaming it Sevenoaks Town Car Park, recognising that these kind of developments are crucial for people who travel in to work in our businesses in the town centre, as well as those who visit our many attractions and vibrant high street shops. Our Finance Team continue to provide the Council with the financial expertise it requires to meet the challenges ahead of us; our HR team and senior managers continue to maximise opportunities to deploy the Apprenticeship Levy and to fulfil our public sector duty on employing apprentices.

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.

## Agenda Item 6

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 continue to provide advice and skills to the Council's trading company, Quercus 7 Limited and the newly incorporated affordable housing company, Quercus Housing Limited.

Adrian Rowbotham

Chief Finance Officer

### 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 2018/19 the Council collected 98.2% of the Council Tax (the same as 2017/18) and 98.8% of the business rates (98.9% in 2017/18) due within the year and raised additional income through its Property Investment Strategy which contributed £0.76m to fund the budget. A further £0.31m was raised through other investments.

#### To work in partnership to keep the District of Sevenoaks safe

- 96% of all the actions in the Council's Community Safety Action Plan were delivered during the year, compared to 92% during 2017/18.

#### 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 2018/19 the Council recycled 38.4% of all household waste collected. This is above the target of 35%.
- The Council missed only 6.9 waste collections per 100,000 made during 2018/19; this is the same as the previous year and well below the target level of 10.

#### To protect the Green Belt

- The 2017/18 Local Plan Authority Monitoring Report shows that 79% of housing units were built outside of the Green Belt (81% in 2017/18). 21% of the gross number of housing units provided were within the Green Belt. Over 70% of these were provided through redevelopment, the majority on an existing employment site, providing 73 housing units.
- The remaining units provided were either replacement units, or the change of use or conversion of existing buildings to residential buildings. All applications were granted in accordance with Green Belt policy and did not impact on the openness of the Green Belt.

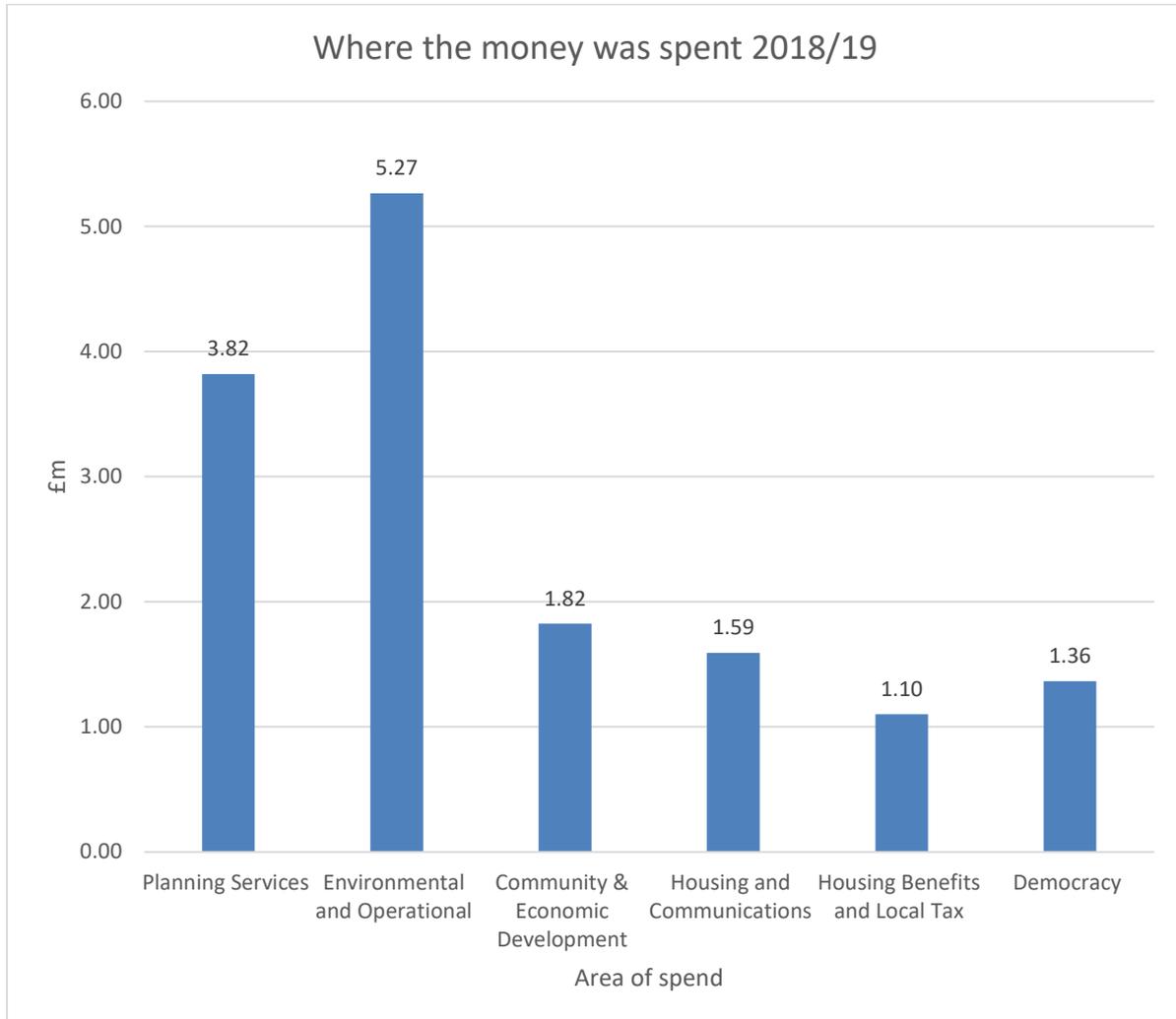
#### To support and develop the local economy

- The number of businesses within the District has increased year on year from a baseline of 6,365 in 2010 to nearly 7,200 in the last year. 5,955 of these are micro businesses employing 9 people or less, which form a significant contribution to the local economy.
- In 2018/19 the Council completed the development of a new 80 room hotel in Sevenoaks town centre, adjacent to the mainline railway station, and leased this to Premier Inn for 25 years, thereby creating a valuable income for the council to support its financial self-sufficiency, and to boost business and the visitor economy in the district in line with our Economic Development Strategy.

## Agenda Item 6

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.

**Chart 1:** The chart below illustrates where we spent our money, by service, in 2018/19



#### 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 dated October 2018.

Risk	Potential Effects	Gross Risk Rating	Internal Controls	Net Risk Score
<b>Finance</b> Ability to deliver a balanced budget	- Poor financial health - Inability to maintain services and deliver Council Vision and Promises - Reputational damage - Poor outcome for the Audit of Accounts or Value for Money assessment	20 High	<ul style="list-style-type: none"> <li>• Self-sufficient budget position; no reliance on direct government funding</li> <li>• Long term 10 year budget framework</li> <li>• Savings Plan</li> <li>• Property Investment Strategy</li> <li>• Strong financial and scenario planning over the short, medium and long term</li> <li>• Effective financial governance including reports to FAC, Cabinet, Audit Committee and Scrutiny Committee</li> </ul>	10 Medium
<b>Property Investment Strategy</b> Failure to identify opportunities to meet the Property investment Strategy	- Lack of diversity in investments - Cost of interest payments - Negative impact on budgets reserves and the ability to deliver Council projects - Poor financial health - Unable to maintain low increases in council tax levels - Reputational damage - Poor outcome for the Audit of Accounts or Value for Money Assessment and potential for	16 High	<ul style="list-style-type: none"> <li>• Council approved Property Investment Strategy</li> <li>• Governance arrangements defined with appropriate delegations agreed</li> <li>• Qualified and experienced officers in post</li> <li>• Professional, external advisers engaged to support the development of strategies and fill skills gaps</li> </ul>	9 Medium

	increased intervention		<ul style="list-style-type: none"> <li>• Effective budget setting and financial monitoring processes embedded</li> <li>• Regular Quercus 7 Board and Trading Board meetings – including</li> <li>• regular review of investment parameters to monitor market fluctuations</li> </ul>	
<p><b>Knowledge, capacity &amp; culture</b> Management of the Council’s human resources fails to protect the Council’s culture, making it difficult to address gaps in capacity and knowledge</p>	<ul style="list-style-type: none"> <li>- Reduced productivity</li> <li>- Reduced quality of staff and work / services</li> <li>- Unable to recruit or retain high quality staff</li> <li>- Unable to continue to deliver the range and quality of services currently experienced</li> <li>- Skills gaps that inhibit the ability to deliver Council projects</li> <li>- Reputational damage as an employer and a service provider</li> </ul>	16 High	<ul style="list-style-type: none"> <li>• 10 year budget minimises the need for short notice changes to the workforce</li> <li>• Human Resources Strategy including workforce development plan, recruitment and retention policies</li> <li>• Investors in People Platinum status demonstrates the Council is a high quality employer</li> </ul>	8 Medium
<p><b>Legal compliance, governance &amp; ethics</b> 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"> <li>- Ineffective political and management leadership</li> <li>- Ineffective scrutiny of decision making and performance</li> <li>- Failure to fulfil statutory duties</li> <li>- Failure to maximise the opportunities changes to legislation may bring</li> </ul>	12 Medium	<ul style="list-style-type: none"> <li>• Dedicated Lexcel accredited Legal team with qualified and experienced officers in place</li> <li>• Council’s Constitution</li> <li>• Internal Audit function complies with Public Sector Internal Audit Standards</li> <li>• Risk Management processes embedded</li> </ul>	6 Low

### 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, which still remains unclear over 2 years since the vote to Leave.

The Council continuously reviews the environment it operates within, seeking to develop a stronger understanding of the financial opportunities and challenges it faces. Since 2010/11, the local government sector as a whole has faced a real term reduction in government funding of 49.1% to 2017/18, and a 28.6% real term reduction in spending power during the same period.

The previous Government had begun consultation on the plan for local government to retain 100% of business rate revenues to fund local services to take effect from April 2021. The Local Government Finance Bill did not complete its passage through the previous parliament and has not been introduced during this one. The Government's plan for the long term funding of local government therefore remains unclear.

Although we are now financially self-sufficient, the long term challenges have not disappeared. We still need to make savings and efficiencies within the context of our 10-year budget. 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 is currently subject to review by Government, or from growth in council tax receipts linked to each new home.

Financial conditions also mean that the Council must work hard to retain and recruit the very best people as what can be provided in salary is contained within national terms and conditions. It has become evident over the past two years that attracting high quality staff is increasingly challenging. However, our commitment to being a great place to work is underlined by the fact the Council has become the first public sector organisation in the country to retain the Investors in People Platinum Award. Our focus on our people has never been greater and continuing to maintain this will be critical to the Council's future success.

## Agenda Item 6

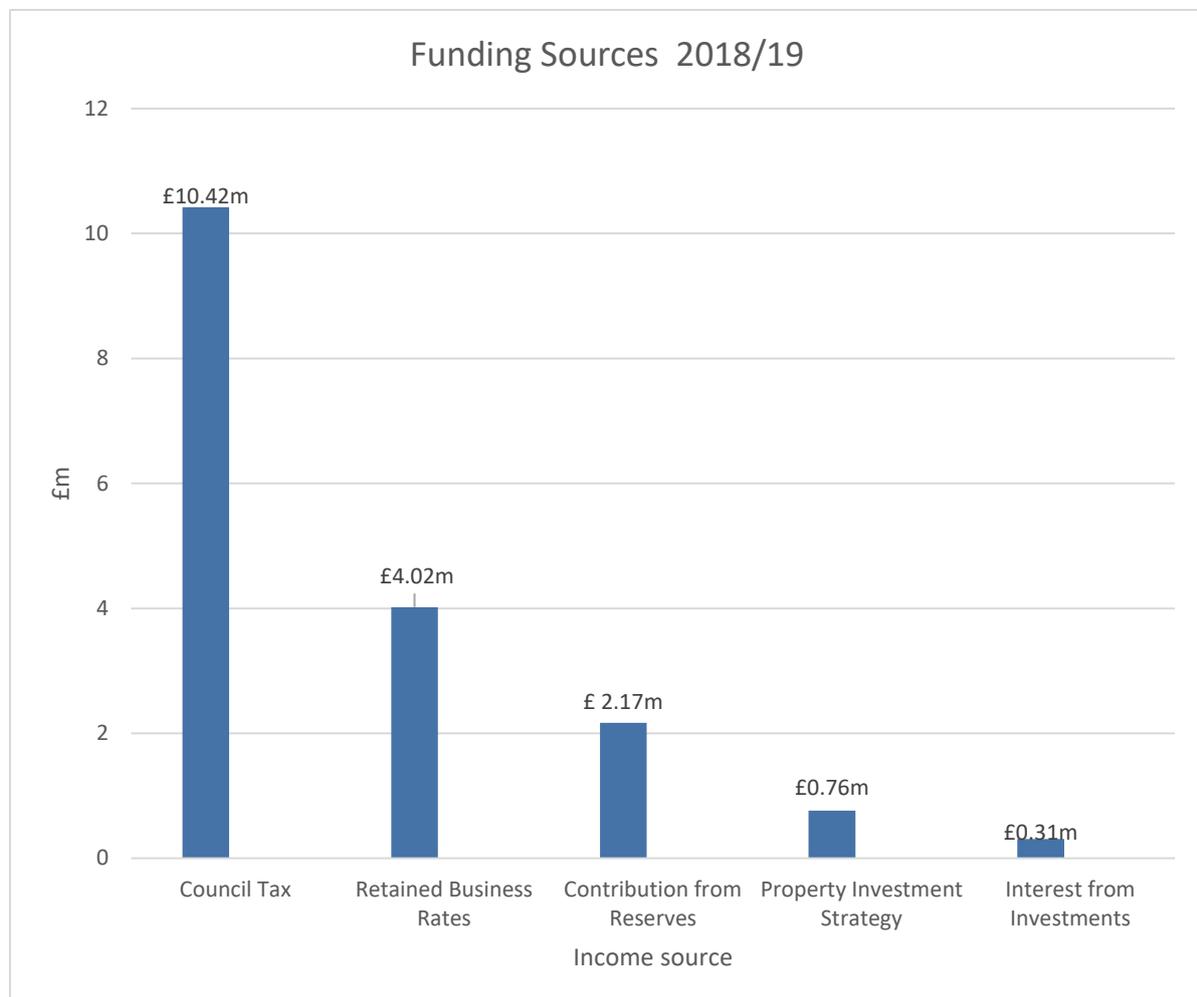
### Revenue

Sevenoaks District Council set its budget for 2018/19 at a meeting of the Council on 20 February 2018. Overall, the Council's net revenue budget has increased from £14.470m in 2017/18 to £14.687m in 2018/19.

The final outturn position is a surplus of £85,000 as approved by Cabinet, this balance 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.



Capital & assets

**Table 1:** The table below shows the net capital budget over the period of 2018 to 2023 by service area.

Service area & schemes	Funding Source	2018/19	2019/20	2020/21	2021/22	2022/23
		Forecast	Budget	Budget	Budget	Budget
		£000	£000	£000	£000	£000
<b>Communities and Business</b>						
Parish projects	Capital Receipts	51	-	-	-	-
White Oak Leisure Centre	Capital Receipts	-	550	-	-	-
<b>Environmental and Operational Services</b>						
Commercial vehicle replacements	Vehicle Renewal Res.	548	548	549	563	563
Disabled Facilities Grants (gross)	Better Care Fund	1,463	1,100	1,100	1,100	1,100
Sennocke Hotel	Fin Plan Reserve & Capital Receipts	2,571	-	-	-	-
Buckhurst 2 Car Park	External Borrowing & Capital Receipts	7,257	-	-	-	-
Buckhurst 2 Residential	Capital Receipts	611	5,861	-	-	-
CCTV		50	20	-	-	-
<b>Finance</b>						
Property Investment Strategy	Prop. Inv. Reserve	429	5,000	5,000	15,095	-
<b>TOTAL</b>		<b>12,980</b>	<b>13,079</b>	<b>6,649</b>	<b>16,758</b>	<b>1,663</b>

## Agenda Item 6

**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.

<b>Funding Sources</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>	<b>2022/23 £000</b>
Capital Receipts	789	4,030	6,592		
Financial Plan Reserve & Cap Receipts	3,269				
Vehicle Renewal Reserve	548	548	549	563	563
Property Investment Strategy *	429	5,000	5,000	15,095	
Better Care Fund (KCC)	1,463	1,100	1,100	1,100	1,100
Internal Borrowing	4,487	2,253	(6,740)		
Capital Reserve (from Revenue)	445	148	148		
External Borrowing	1,550				
<b>Total</b>	<b>12,980</b>	<b>13,079</b>	<b>6,649</b>	<b>16,758</b>	<b>1,663</b>

\* Part will be funded from Capital Receipts, Reserves, Internal Borrowing and External Borrowing.

The introduction of the fair value accounting policy has been implemented in the production of the 2018/19 Statement of Accounts. This is a significant change in accounting policy.

Further details are provided in Note 2 of the Core Financial Statements.

### Borrowing & Investments

During the 2018/19 year the Council internally borrowed £6.8m to fund the redevelopment of the Buckhurst 2 car park in Sevenoaks town centre and a new hotel adjacent to the train station. Both of these have now been completed; the car park is providing increased parking capacity in the town centre, and the 80 room hotel provides not only modern accommodation for guests who contribute to the visitor economy of the district, but income for the Council via the lease to Premier Inn.

The Council's existing investments including office accommodation at Pembroke Road, Swanley petrol filling station, Suffolk Way and retail accommodation at 96 The High Street, are all tenanted and the rents received are assisting to maintain the Council's financial self-sufficiency in response to the removal of government grant contributions to the Council.

### Cash flow

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

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

At 31 March 2019 the Council held £2.8m in cash and cash equivalents.

The reduction is attributable to the long term investment in property assets set out above and is in line with the Financial Strategy.

### 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.

<b>Business rates – valuation appeals provision</b>	<b>£2.232m at 31 March 2018</b>	<b>£2.547m at 31 March 2019</b>
---	---------------------------------	---------------------------------

### 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 £87.5m at 31 March 2019 compared to £91.4m at 31 March 2018 in the Balance Sheet. 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.

## Agenda Item 6

### 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 2019 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*

2017/18			2018/19		
Gross			Gross		
Gross Exp.	Income	Net Exp	Exp	Income	Net Exp
£'000	£'000	£'000	£'000	£'000	£'000
3,221	(720)	2,501	3,762	(1,102)	2,660
1,234	(528)	706	1,069	(200)	869
17,296	(6,093)	11,203	13,672	(7,482)	6,190
32,294	(28,200)	4,094	31,330	(27,225)	4,105
4,972	(2,223)	2,749	5,710	(2,684)	3,026
<b>59,017</b>	<b>(37,764)</b>	<b>21,253</b>	<b>55,543</b>	<b>(38,693)</b>	<b>16,850</b>
	(127)				(656)
	(220)				(209)
	4,006				4,227
	1				1
	<u>3,660</u>				<u>3,363</u>
	(832)				(157)
	-				-
	(750)				(1,000)
	58				138
	2,582				2,289
	<u>(188)</u>				<u>(329)</u>
	870				941
	(2,193)				(2,415)
	(14,130)				(14,713)
	(1,389)				(3,498)
	(3,265)				(2,932)
	<u>(20,977)</u>				<u>(23,558)</u>
	4,806				(2,404)
	1,524				(1,965)
	(9,235)				(6,731)
	<u>(7,711)</u>				<u>(8,696)</u>
	<u>(2,905)</u>				<u>(11,100)</u>

## Agenda Item 6

### 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 2018/19 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 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
<b>Balance at 31 March 2017</b>	<b>(1,500)</b>	<b>(22,414)</b>	<b>(23,914)</b>	<b>(799)</b>	<b>(143)</b>	<b>(24,856)</b>	52,120	27,264
<b>Movement in reserves during 2017/18</b>								
(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)
<b>Total Comprehensive Income and Expenditure</b>	<b>4,806</b>	<b>-</b>	<b>4,806</b>	<b>-</b>	<b>(1)</b>	<b>4,805</b>	<b>(7,710)</b>	<b>(2,905)</b>
Adjustments between accounting basis & funding basis under regulations (note 8)	(1,576)	-	(1,576)	(2,193)	95	(3,674)	3,674	-
<b>Net (Increase)/ Decrease before Transfers to Earmarked reserves</b>	<b>3,230</b>	<b>-</b>	<b>3,230</b>	<b>(2,193)</b>	<b>94</b>	<b>1,131</b>	<b>(4,036)</b>	<b>(2,905)</b>
Year end balance transferred (to)/from Budget Stabilisation Reserve	617	(617)	-	-	-	-	-	-
Other transfers to/from Earmarked Reserves	(3,847)	3,847	-	-	-	-	-	-
<b>Total transfers (to)/from Earmarked Reserves (Note 9)</b>	<b>(3,230)</b>	<b>3,230</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(Increase)/ Decrease in 2017/18</b>	<b>-</b>	<b>3,230</b>	<b>3,230</b>	<b>(2,193)</b>	<b>94</b>	<b>1,131</b>	<b>(4,036)</b>	<b>(2,905)</b>
<b>Balance at 31 March 2018</b>	<b>(1,500)</b>	<b>(19,184)</b>	<b>(20,684)</b>	<b>(2,992)</b>	<b>(49)</b>	<b>(23,725)</b>	48,084	24,359

Movement in Reserve Statement (cont.)

Financial Year 2018/19								
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 (Group)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2018	(1,500)	(19,184)	(20,684)	(2,992)	(49)	(23,725)	48,084	24,359
<b>Movement in reserves during 2018/19</b>								
(Surplus) or deficit on the provision of services	(2,404)		(2,404)			(2,404)		(2,404)
Other Comprehensive Income and Expenditure			-		(1)	(1)	(8,695)	(8,696)
<b>Total Comprehensive Income and Expenditure</b>	<b>(2,404)</b>	<b>-</b>	<b>(2,404)</b>	<b>-</b>	<b>(1)</b>	<b>(2,405)</b>	<b>(8,695)</b>	<b>(11,100)</b>
Adjustments between accounting basis & funding basis under regulations (note 8)	2,217	-	2,217	(635)	(508)	1,074	(1,074)	-
<b>Net (Increase)/ Decrease before Transfers to Earmarked reserves</b>	<b>(189)</b>	<b>-</b>	<b>(189)</b>	<b>(635)</b>	<b>(509)</b>	<b>(1,331)</b>	<b>(9,769)</b>	<b>(11,100)</b>
<b>Year end balance transferred (to)/from Budget Stabilisation Reserve</b>	<b>85</b>	<b>(85)</b>	<b>-</b>			<b>-</b>		<b>-</b>
<b>Other transfers to/from Earmarked Reserves</b>	<b>104</b>	<b>(104)</b>	<b>-</b>			<b>-</b>		<b>-</b>
<b>Total transfers (to)/from Earmarked Reserves (Note 9)</b>	<b>189</b>	<b>(189)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(Increase)/ Decrease in 2018/19</b>	<b>-</b>	<b>(189)</b>	<b>(189)</b>	<b>(635)</b>	<b>(509)</b>	<b>(1,331)</b>	<b>(9,769)</b>	<b>(11,100)</b>
<b>Balance at 31 March 2019</b>	<b>(1,500)</b>	<b>(19,373)</b>	<b>(20,873)</b>	<b>(3,627)</b>	<b>(558)</b>	<b>(25,056)</b>	<b>38,316</b>	<b>13,257</b>

## Agenda Item 6

### 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.

31/03/18			31/03/19
£'000	Note		£'000
		<b>Long Term Assets</b>	
33,888	10	Property, Plant and Equipment	39,670
1,190	10	Surplus Assets	1,164
-	38	Heritage Assets	-
21,443	11	Investment Property	29,753
-		Intangible Assets	-
50	12	Long Term Investments	265
918	14	Long Term Debtors	1,136
<u>57,489</u>		<b>Total Long Term Assets</b>	<u>71,988</u>
		<b>Current Assets</b>	
24,046	12	Short Term Investments	18,078
180	16	Assets held for sale	180
7,445	12 & 15	Cash and Cash Equivalents	2,773
46	13	Inventories	69
3,300	14	Short Term Debtors	5,973
265	14	Payments in Advance	572
<u>35,282</u>		<b>Total Current Assets</b>	<u>27,645</u>
		<b>Current Liabilities</b>	
(7,604)	17 & 29	Receipts in Advance	(8,320)
(9,560)	17	Short Term Creditors	(8,643)
(2,384)	18	Short Term Provisions	(2,699)
<u>(19,548)</u>		<b>Total Current Liabilities</b>	<u>(19,662)</u>
15,734		<b>Net Current Assets</b>	7,983
		<b>Long Term Liabilities</b>	
(5,489)	17	Long Term Borrowing	(5,364)
(257)	18	Long Term Provisions	(257)
(91,413)	35	Net Pensions Liability	(87,574)
(423)	29	Capital Grants Receipts in Adv.	(33)
<u>(97,582)</u>		<b>Total Long Term Liabilities</b>	<u>(93,228)</u>
<u>(24,359)</u>		<b>Total Net Assets/(Liabilities)</b>	<u>(13,257)</u>

Balance Sheet (cont)

31/03/18 £'000	Note		31/03/19 £'000
		<b>Usable Reserves</b>	
(49)	MIRS	Usable Capital Receipts Reserve	(559)
(19,184)	9	Earmarked Reserves	(19,373)
(2,992)	MIRS	Capital Grants Unapplied	(3,627)
(1,500)	MIRS	General Fund	(1,500)
<u>(23,725)</u>		Subtotal Usable Reserves	<u>(25,059)</u>
		<b>Unusable Reserves</b>	
(26,040)	20	Capital Adjustment Account	(30,058)
(16,946)	20	Revaluation Reserve	(18,812)
152	20	Accumulated Absences Act.	152
(327)	20	Collection Fund Adj. Account	(382)
91,413	20 & 35	Pensions Reserve	87,574
(168)	20	Deferred Capital Receipts	(158)
<u>48,084</u>		Subtotal Unusable Reserves	<u>38,316</u>
		<b>Total Reserves</b>	
<u>24,359</u>			<u>13,257</u>

These financial statements replace the unaudited financial statements and were authorised at the meeting of the Audit Committee on 18 July 2019.

Adrian Rowbotham  
Chief Finance Officer  
18 July 2019

COUNCIL APPROVAL

The Audit Committee at its meeting on 18 July 2019, approved the Statement of Accounts for the year end 31 March 2019 in accordance with the Accounts and Audit Regulation 2011.

Councillor P McGarvey  
Chairman of the Audit Committee  
18 July 2019

## Agenda Item 6

### 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.

2017/18 £'000	Note		2018/19 £'000
4,806		Net (surplus) or deficit on the provision of services	(2,404)
(10,122)	21	Adjustments to net (surplus) or deficit on the provision of services for non-cash movements	1,207
1,158	21	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	1,848
(4,158)		Net cash flows from operating activities	651
13,753	22	Investing Activities	4,371
(7,507)	23	Financing Activities	(350)
2,088		Net (increase) or decrease in cash and cash equivalents	4,672
(9,533)		Cash and cash equivalents at the beginning of the reporting period	(7,445)
(7,445)	15	Cash and Cash Equivalents at the end of the reporting period	(2,773)

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*

Net Expenditure Chargeable to the General Fund	2017/18		Net Expenditure in the Comprehensive Income and Expenditure Statement		2018/19		Net Expenditure in the Comprehensive Income and Expenditure Statement
	Adjustments between the Funding and Accounting Basis	£000			£000	Adjustments between the Funding and Accounting Basis	
1,464	1,037	2,501	Communities and Business	1,570	1,090	2,660	
2,914	(2,208)	706	Corporate Services	2,997	(2,128)	869	
4,828	6,375	11,203	Environment & Operations	4,846	1,344	6,190	
4,371	(277)	4,094	Finance	4,556	(451)	4,105	
1,181	1,568	2,749	Planning	1,261	1,765	3,026	
14,758	6,495	21,253	Net Cost of Services	15,230	1,620	16,850	
(11,528)	(4,919)	(16,447)	Other Income and Expenditure	(15,419)	(3,835)	(19,254)	
3,230	1,576	4,806	(Surplus) or Deficit	(189)	(2,215)	(2,404)	
(23,914)			Opening General Fund Balance	(20,684)			
3,230			(Surplus) or Deficit on General Fund Balance in Year	(189)			
(20,684)			Closing General Fund Balance at 31 March	(20,873)			

# Agenda Item 6

## Note 2. Accounting Policies

### 2.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. 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 2018/19 and the Service Reporting Code of Practice 2018/19, supported by International Financial Reporting Standards (IFRS).

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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- 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. This policy applies to contractual debt as well as to statutory debt for Council Tax, Non-Domestic Rates and overpayments of Housing Benefit.

### 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 Funded from Capital under Statute (REFCUS – see 2.19 below)

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation, 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 Council Tax and Non-domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

## Agenda Item 6

### Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

### **2.7 Provisions Contingent Assets and Liabilities**

#### 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.

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

#### 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.

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

### Contingent Assets

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 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.

### **2.8 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.

## Agenda Item 6

The liabilities are valued using a discount rate being the annualised yield. This started at 20 years 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 and is reduced annually as detailed in Note 35.

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 'Curtailements' 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.
  - 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.

## **2.9 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.

## **2.10 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.

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

## Agenda Item 6

### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 (CIES) 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 financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

### Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

### Financial Assets Measured at Fair Value through other comprehensive income

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Movements in amortised cost are debited or credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES). Fair value gains and losses are debited or credit to Other Comprehensive Income and Expenditure. Cumulative gains or losses on fair value of financial assets measured at FVOCI are transferred to the General Fund Balance on derecognition of the assets.

### Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

### **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.

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 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.

## Agenda Item 6

### 2.13 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.

### 2.14 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.

### 2.15 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 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.

## Agenda Item 6

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.

### 2.16 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.

### 2.17 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 :

- 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.

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.

## Agenda Item 6

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.

### **2.18 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 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 2.17.

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.

## Agenda Item 6

### 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).

#### **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.

#### **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 2019. 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.

#### **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.

In regards to Brexit the Council remains alert to the consequences of the vote to leave the European Union, and remains a strong regional partner with the County Council and other local Councils to ensure that performance across the region remains strong.

**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 2017/18	Adjust- ments for Capital	Net change for the Pensions adjustments	Other Statutory Adjust- ments	Other Differences	Total
	£'000s	£'000s	£'000s	£'000s	£'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
<b>Net Cost of Services</b>	<b>5,939</b>	<b>809</b>	<b>-</b>	<b>(253)</b>	<b>6,495</b>
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

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts 2018/19	Adjust- ments for Capital	Net change for the Pensions adjustments	Other Statutory Adjust- ments	Other Differences	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Communities and Business	32	349	-	709	1,090
Corporate Services	-	131	-	(2,259)	(2,128)
Environmental & Operations	975	615	-	(246)	1,344
Financial Services	-	(1,047)	-	596	(451)
Planning Services	122	554	-	1,089	1,765
<b>Net Cost of Services</b>	<b>1,129</b>	<b>602</b>	<b>-</b>	<b>(111)</b>	<b>1,620</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(6,181)	2,289	(54)	111	(3,835)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement surplus or deficit on the Provision of Services	(5,052)	2,891	(54)	-	(2,215)

## Agenda Item 6

### **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 Under Regulations

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
<b>Adjustments primarily involving the Capital Adjustment Account</b>				
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)
<b>Non Specific Capital Grants</b>				
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.				-
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure statement:</b>				
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

## Agenda Item 6

### Adjustments Between Accounting Basis and Funding Basis Under Regulations (cont)

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
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
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		-
<b>Adjustments primarily involving the Pensions Reserve</b>				
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)
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>				
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)
<b>Adjustments primarily involving the Accumulated Absences Account</b>				
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				-
<b>Total Adjustments</b>	( 1,576)	95	( 2,193)	3,674

Adjustments Between Accounting Basis and Funding Basis Under Regulations (cont)

Adjustments between Accounting Basis and Funding Basis under Regulations 2018/19	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Adjustment Account</b>				
Reversal of items debited or credited to the Comprehensive Income and Expenditure statement:				
Charges for depreciation and impairment of non-current assets	( 682)			682
Revaluation gain on Property, Plant and Equipment	866			( 866)
Movements in the market value of Investment Properties	-			-
Capital grants and contributions applied	2,917		1,029	( 3,946)
<b>Non Specific Capital Grants</b>				
Revenue expenditure funded from capital under statute	( 4,589)			4,589
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	( 50)			50
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.				-
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure statement:</b>				
Transfer of non current asset sale proceeds from revenue to the Capital Receipts Reserve	657	( 657)		-
Administrative costs of non current asset disposals (funded by a contribution from the Capital Receipts Reserve				-
Capital expenditure charged against the General Fund Balance	4,130			( 4,130)
Statutory provision for the repayment of debt	150			( 150)
Capital Grants and Contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,665		( 1,665)	-
Mitigation of operating lease as lessee reclassified as finance lease upon transition to IFRS	( 8)			8

## Agenda Item 6

### Adjustments Between Accounting Basis and Funding Basis Under Regulations (cont)

Adjustments between Accounting Basis and Funding Basis under Regulations 2018/19 (continued)	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Use of the Capital Receipts Reserve to finance new capital expenditure		148		( 148)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	( 1)	1		-
<b>Adjustments primarily involving the Pensions Reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	( 6,291)			6,291
Employer's pensions contributions and direct payments to pensioners payable in the year	3,399			( 3,399)
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>				
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	( 189)			189
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	243			( 243)
<b>Adjustments primarily involving the Accumulated Absences Account</b>				
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				-
<b>Total Adjustments</b>	2,217	( 508)	( 636)	( 1,074)

**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 2017/18 and 2018/19.

*Transfers to/from Usable Reserves*

	Balance at 31/03/17 £'000	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	Balance at 31/03/18 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance at 31/03/19 £'000
General Fund	(1,500)	-	-	(1,500)	-	-	(1,500)
Budget Stabilisation	(7,238)	2,484	(856)	(5,610)	433	(2,761)	(7,938)
Financial Plan	(5,182)	3,000	(1,838)	(4,020)	3,976	(1,320)	(1,364)
Asset Maintenance	(1,000)	-	-	(1,000)	-	-	(1,000)
Swanley Station Improvements	-	-	-	-	-	(750)	(750)
Carry Forward Items	(310)	14	(212)	(508)	31	(231)	(707)
IT Asset Maintenance	(488)	-	(102)	(590)	-	(92)	(682)
Capital Financing	(413)	116	(148)	(445)	-	(148)	(593)
Corporate Project Support	(501)	78	(149)	(572)	127	(141)	(586)
Business Rates Retention	(1,129)	320	-	(809)	243	-	(566)
Vehicle Renewal	(432)	305	(570)	(697)	766	(601)	(532)
Pension Fund	(1,216)	716	-	(500)	-	-	(500)
Local Plan	(607)	190	(142)	(559)	263	(195)	(491)
Housing Benefit Subsidy	(723)	217	(105)	(611)	250	(83)	(444)
Re-organisation	(423)	-	-	(423)	-	-	(423)
New Homes Bonus	(499)	30	-	(469)	63	-	(406)
Action and Development	(396)	-	-	(396)	-	-	(396)
Community and Business	(350)	78	(2)	(274)	75	(153)	(352)
Vehicle Insurance	(310)	1	-	(309)	10	-	(299)
Homelessness Prevention	(66)	26	(191)	(231)	310	(334)	(255)
First Time Sewerage	(316)	50	-	(266)	60	-	(206)
Community Infrastructure Levy Administration	(6)	-	(101)	(107)	-	(77)	(185)
District Elections	(20)	-	(42)	(62)	-	(42)	(104)
Other	(789)	1,772	(1,709)	(726)	946	(813)	(593)
<b>Grand Total</b>	<b>(23,914)</b>	<b>9,397</b>	<b>(6,167)</b>	<b>(20,684)</b>	<b>7,553</b>	<b>(7,741)</b>	<b>(20,873)</b>

## Agenda Item 6

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.

Swanley Station Improvements - Community Infrastructure Levy spending board funding

Carry Forward Items - For specific items agreed by Cabinet.

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

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

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

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.

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

Local Plan - To help support the Local Plan.

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

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

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.

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

Community and Business - To fund ongoing and future projects.

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

Homelessness - To assist in the delivery of the Homelessness Reduction Act

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

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

District Elections - To fund future District Elections

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 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	20,825	5,280	211	1,190	11,826	39,332
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	(350)	(3,904)	-	-	-	(4,254)
Net Book Value						
As at 31 March 2018	20,475	1,376	211	1,190	11,826	35,078

## Agenda Item 6

	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 2018/19: Cost or Valuation						
At 1 April 2018	20,825	5,280	211	1,190	11,826	39,332
Additions	52	810			10,903	11,765
Revaluation increases/ (decreases) recognised in:						
- Revaluation Reserve	2,015			( 24)		1,991
- Surplus or Deficit	711			( 2)		709
Derecognition – Disposals		( 372)				( 372)
Derecognition – Other		( 395)				( 395)
Reclassifications in PPE						
Reclassifications other					( 8,026)	( 8,026)
At 31 March 2019	23,603	5,323	211	1,164	14,703	45,003
Accumulated Depreciation and Impairment						
At 1 April 2018	( 350)	( 3,904)	-	-	-	( 4,254)
Depreciation Charge	( 167)	( 516)				( 683)
Depreciation written out to the						
- Revaluation Reserve						-
- Surplus or Deficit on the provision of services						-
Derecognition – Disposals		372				372
Derecognition - Other		395				395
Reclassifications						
At 31 March 2019	( 517)	( 3,653)	-	-	-	( 4,170)
Net Book Value						
As at 31 March 2019	23,086	1,670	211	1,164	14,703	40,834

**Capital Commitments**

At 31 March 2019, 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 2018 £'000	31st March 2019 £'000
<b>Surplus Operation Properties</b>		
Quoted Prices in active market for identical assets (Level 1)	-	-
Other significant observable inputs (Level 2)	1,190	<b>1,164</b>
Significant un-observable inputs (Level 3)	-	-
Fair Value	<u>1,190</u>	<u><b>1,164</b></u>

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 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.

## Agenda Item 6

### 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 2019, 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
2018/19	Investment Properties; Car parks; Amenity Land; Playgrounds
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

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 & Equip- ment £'000	Comm- unity Assets £'000	Assets Held for Sale £'000	Assets Under Con- struction £'000	Surplus Assets £'000	TOTAL £'000
Carried at historical cost:		5,322	211	-	-	-	<b>5,533</b>
Valued at current value in:							
2018/19	17,396	-	-	150	-	1,164	<b>18,710</b>
2017/18	-	-	-	0	14,703	-	<b>14,703</b>
2016/17	5,922	-	-	30	-	-	<b>5,952</b>
2015/16	80	-	-	0	-	-	<b>80</b>
2014/15	17	-	-	0	-	-	<b>17</b>
2013/14	-	-	-	0	-	-	-
2012/13	-	-	-	0	-	-	-
<b>Total</b>	<b>23,415</b>	<b>5,322</b>	<b>211</b>	<b>180</b>	<b>14,703</b>	<b>1,164</b>	<b>44,995</b>

**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.

	2017/18 £'000	2018/19 £'000
Rental income from investment property	(837)	(1,056)
Direct operating expenses from investment property	87	56
<b>Net income from Investment Properties</b>	<b>(750)</b>	<b>(1,000)</b>

## Agenda Item 6

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 to make repairs, maintenance or enhancement.

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

	2017/18	2018/19
	£'000	£'000
Balance at start of the year	20,409	21,443
Purchases	202	8,229
Disposals	-	(50)
Net Gains/ (losses) from fair value adjustment	832	131
	<u>21,443</u>	<u>29,753</u>

Details of the authority's Investment Properties and information about the fair value hierarchy at 31 March 2019 are as follows:

	31st March 2018	31st March 2019
	£'000	£'000
<b>Existing properties generating rental income</b>		
Quoted Prices in active market for identical assets (Level 1)		
Other significant observable inputs (Level 2)	2,524	10,750
Significant un-observable inputs (Level 3)		
<b>Property Investment Strategy</b>		
Quoted Prices in active market for identical assets (Level 1)		
Other significant observable inputs (Level 2)	18,919	19,003
Significant un-observable inputs (Level 3)		
Total Fair Value	<u>21,443</u>	<u>29,753</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

Balance Sheet disclosures

Categories of Financial Assets

	Long Term				Short Term			
	Investments		Debtors		Investments		Debtors	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
FVPL								
Amortised cost			752	987	31,491	20,851	1,154	2,132
FVOCI - designated	50	265						
FVOCI - other								
Total Financial Assets	<u>50</u>	<u>265</u>	<u>752</u>	<u>987</u>	<u>31,491</u>	<u>20,851</u>	<u>1,154</u>	<u>2,132</u>
Non-Financial Assets			56,687	70,736			2,637	4,662
Total			<u>57,489</u>	<u>71,988</u>			<u>35,282</u>	<u>27,645</u>

Categories of Financial Liabilities

	Long Term				Short Term			
	Borrowings		Creditors		Borrowings		Creditors	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
FVPL								
Amortised cost	(5,133)	(5,014)	(356)	(350)	(174)	(176)	(2,627)	(2,541)
Total Financial Liabilities	<u>(5,133)</u>	<u>(5,014)</u>	<u>(356)</u>	<u>(350)</u>	<u>(174)</u>	<u>(176)</u>	<u>(2,627)</u>	<u>(2,541)</u>
Non-Financial Liabilities			(92,093)	(87,864)			(16,747)	(16,945)
Total			<u>(97,582)</u>	<u>(93,228)</u>			<u>(19,548)</u>	<u>(19,662)</u>

The effects of reclassification of financial assets following the adaptation of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting are shown in the table below:

	Carrying amount brought forward as 1 April 2018 £'000	Fair value through profit and loss £'000	Amortised cost £'000	New Classification as at 1 April 2018		£'000
				Fair value through other comprehensive income - designated £'000	Fair value through other comprehensive income - other £'000	
<b>Previous Classification:</b>						
Investments	24,096		24,046	50		
Net trade receivables (within debtors)	1,906		1,906			
Cash & cash equivalents	7,445		7,445			
Reclassified amounts as 1 April 2018		-	<u>33,397</u>	50	-	
Remeasurements at 1 April 2018		-	<u>33,397</u>	50	-	
Remeasured carrying amounts at 1 April 2018		-	<u>33,397</u>	50	-	
Impact on General Fund Balance						-
Impact on Financial Instruments Revaluation Reserve						-

## Agenda Item 6

The table below shows how the new balances at 1 April 2018 for financial assets are incorporated into the Balance Sheet:

	Fair value through profit and loss	Amortised cost	Fair value through other comprehensive income - designated	Fair value through other comprehensive income - other	Non-Financial Instruments balances	Total Balance Sheet carrying amount
	£'000	£'000	£'000	£'000	£'000	£'000
Remeasured carrying amounts at 1 April 2018	-	33,397	50	-	59,324	92,771
Long term investments			50			
Long term debtors		752				
Short term investments		24,046				
Cash and cash equivalents		7,445				
Short term debtors		1,154				

The following judgments were made in reclassifying financial instrument:

- The investment figures are made up mainly of surplus capital and revenue reserve balances. The investments (excluding the equity instrument described below) are placed with recognised financial institutions, having fixed or determinate payments and not quoted in an active market. They are classified as amortised cost as they are being held as part of a business model to collect contractual cash flows. 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.
- Loan and trade receivables have determinate payments and are held as part of a business model to collect contractual cash flows. They are classified as amortised cost. Trade receivables are shown within the short term debtors. Loan receivables are shown within the long term debtors with the part to be repaid within twelve month shown in short term debtors.
- The equity instruments held by the authority are held for strategic purposes and are not for trading. They are classified as fair value through other comprehensive income.

With the introduction of IFRS 9 the authority has designated the following equity at 31 March 2019 as fair value through other comprehensive income:

	Carrying amount at 31/03/19	Fair value at 31/03/19	Change in value during 2018/19	Dividends 2018/19
	£'000	£'000	£'000	£'000
UK Municipal Bond Agency	50	50	-	-
Quercus 7 Ltd	215	215	-	-
	<u>265</u>	<u>265</u>		

The authority holds shares in UK Municipal Bond Agency which was set up to allow local authorities to diversify funding sources and borrow at a lower cost. The agency will sell municipal bonds on the capital markets, raising funds that it will then lend to the councils. As the equity instrument of UK MBA is not held for trading, rather a longer term policy initiative, it has been designated as fair value through other comprehensive income. The shares are carried at cost which is the best estimate of fair value.

The authority holds shares in Quercus 7 Ltd, a wholly owned subsidiary, which was set up to enable Sevenoaks District Council to invest in property on a commercial basis, ensuring a sustainable income for the Council, as well as enabling the Council to invest in and hold residential property, which it is otherwise not allowed to do. As the equity instrument of Quercus 7 Ltd is not held for trading, rather a longer term policy initiative, it has been designated as fair value through other comprehensive income. The shares are carried at cost which is the best estimate of fair value.

Comprehensive Income and Expenditure Statement disclosures

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	2017/18		2018/19	
	Surplus or Deficit on the Provision of Services £'000	Other Comprehensi ve Income and Expenditure £'000	Surplus or Deficit on the Provision of Services £'000	Other Comprehensi ve Income and Expenditure £'000
Net gains/losses on:				
financial assets measured at FVPL				
financial assets measured at Amortised cost			(0)	
financial assets measured at FVOCI - designated				
financial assets measured at FVOCI - other				
financial liabilities measured at FVPL				
financial liabilities measured at Amortised cost				
Total net gain/losses	-	-	(0)	-
Interest revenue				
financial assets measured at Amortised cost	(170)		(310)	
financial assets measured at FVOCI - other				
Total interest revenue	(170)	-	(310)	-
Interest expense	111		164	
Fee income				
financial assets or financial liabilities not at FVPL trust and other fiduciary activities				
Total fee income	-	-	-	-
Fee expenses				
financial assets or financial liabilities not at FVPL trust and other fiduciary activities				
Total fee expenses	-	-	-	-

## Agenda Item 6

### Fair Value

Some of the authority's financial assets are measured at fair value on a recurring basis and described in the following table, including the valuation technique used to measure them:

	Input level in fair value hierarchy	Valuation technique	As at 31/3/18 £'000	As 31/3/19 £'000
FVOCI - designated				
UK Municipal Bond Agency	Level 3	Cost	50	50
Quercus 7 Ltd	Level 3	Cost	1	215

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures.
- For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures.
- For loans receivable 24 months Investment market rates have been used to provide fair values.
- No early repayment or impairment is recognised.
- Where an instrument has a maturity of less than 12 months (investments) or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

	Input level in fair value hierarchy	31/3/18		31/3/19	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		£'000	£'000	£'000	£'000
<b>Financial liabilities</b>					
PWLB debt	Level 2	(5,307)	(5,417)	(5,190)	(5,497)
Long term creditors	Level 2	(356)	(656)	(350)	(672)
Short term creditors	Level 2	(2,627)	(2,627)	(2,541)	(2,541)
<b>Financial Assets</b>					
Financial Institutions (banks)	Level 2	13,023	13,023	7,037	7,037
Building Societies	Level 2	6,008	6,008	1,003	1,003
Other Local Authorities	Level 2	10,018	10,018	11,039	11,039
Money Market Funds	Level 2	1,102	1,102	2,201	2,201
Long term debtors	Level 2	752	962	987	1,260
Short term debtors	Level 2	1,154	1,154	2,132	2,132

The fair value of liabilities is greater than the carrying amount because the Council's portfolio of loans includes fixed rates loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2019) arising from a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loan of £5.497m measures the economic effect of terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loan under the agreement with the PWLB, against what would be paid if the loan was at prevailing market rates.

The fair value of assets is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for investments the Council would be allowed to make in accordance with the Council's Investment Policy at the balance sheet date. This shows a notional future gain (based on economic conditions at 31 March 2019) arising from a commitment to receive interest from borrowers above current Investment market rates.

### 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 those Societies having assets in excess of £3bn with a maximum investment period of 1 year if the Society does not satisfy the creditworthiness modelling approach.
- No more than £7m per counterparty. For Building Societies, the limit is £5m where the Society satisfies the creditworthiness modelling approach, or £3m if it doesn't.

## Agenda Item 6

Investments are limited to 25% of the total fund to any single institution or institutions within a group of companies.

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.

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 2018/19 was approved by Council on 20 February 2018. 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 £8.1m at 31 March 2019 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 2019 that this was likely to crystallise.

The Council calculates impairment losses to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on basis of 12-month expected losses. Only lifetime losses are recognised for trade receivables held by the authority.

The changes in loss allowances for the trade receivables during the year are shown in the table below:

	Lifetime ECL - simplified approach £'000	Total £'000
Opening Balance as at 01/4/17	(85)	(85)
Trade debtors: individual assessment	(0)	(0)
Trade debtors: collective assessment		
Amounts written-off		-
Balance as at 31/03/18	(85)	(85)
Trade debtors: individual assessment		-
Trade debtors: collective assessment		
Amounts written-off	22	22
Balance as at 31/03/19	(64)	(64)

### **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 Treasury Management 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.

All investments, totalling £21,279m are due to be repaid in less than one year.

### **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:

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 deposits had been 1% higher during 2018/19 (with all other variables held constant), the financial effect would have been to increase investment income by £436,000.

#### Price Risk

The Council does not invest in equity shares or marketable bonds for trading purposes 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.

## Agenda Item 6

### Note 13. Inventories

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

	2017/18	2018/19
	£'000	£'000
Balance outstanding at start of the year	48	46
Purchases	438	459
Recognised as an expense in the year	(440)	(436)
Balance outstanding at end of the year	<u>46</u>	<u>69</u>

### Note 14. Debtors

#### Short Term Debtors

31/03/18		31/03/19
£'000		£'000
583	Central Government Bodies	337
847	Other Local Authorities	1,369
415	Council Tax Payers	441
508	Non Domestic Rate	2,475
1,212	Other entities and individuals	1,923
<u>3,565</u>	Total	<u>6,545</u>

#### Long Term Debtors

31/03/18		31/03/19
£'000		£'000
918	Other entities and individuals	1,136
<u>918</u>	Total	<u>1,136</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:

	31/03/18 £'000	31/03/19 £'000
Cash held by the Authority	9	8
Bank current accounts	1,331	(437)
Short-term deposits with:		
Banks	4,002	1,001
Building Societies	-	-
Other Local Authorities	1,001	-
Money Market Funds	1,102	2,201
<b>Total Cash and Cash Equivalents</b>	<b>7,445</b>	<b>2,773</b>

**Note 16. Assets Held for Sale**

	2017/18 £'000	2018/19 £'000
Balance at start of the year	180	180
Purchases	-	-
Disposals	-	-
Net Gains/ (losses) from fair value adjustment	-	-
Assets newly classified as held for sale	-	-
Asset de-classified as held for sale	-	-
	<b>180</b>	<b>180</b>

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 2019 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 2018/19	180	1,454		1,454	
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.

## Agenda Item 6

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

31/03/18 £'000		31/03/19 £'000
( 542)	Central Government Bodies	( 473)
( 1,094)	Other Local Authorities	( 955)
( 1,088)	Council Tax Payers	( 121)
( 4,695)	Non Domestic Rate	( 5,468)
( 2,141)	Other entities and individuals	( 1,626)
<u>( 9,560)</u>	Total	<u>( 8,643)</u>

#### Long Term Borrowing

31/03/18 £'000		31/03/19 £'000
( 5,133)	Central Government Bodies	( 5,014)
( 356)	Other Local Authorities	( 350)
<u>( 5,489)</u>	Total	<u>( 5,364)</u>

#### Short Term Receipts in Advance

31/03/18 £'000		31/03/19 £'000
( 29)	Central Government Bodies	( 45)
( 333)	Other Local Authorities	( 322)
( 294)	Council Tax Payers	( 275)
( 423)	Non Domestic Rate	( 319)
( 293)	Other entities and individuals	( 399)
<u>( 1,372)</u>	Total	<u>( 1,360)</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 2018	257	152	2,232	2,384
Additional Provisions made during year	-	-	3,347	3,347
Amounts Used during the year	-	-	( 3,032)	( 3,032)
Amounts reversed as not required	-	-	-	-
Balance at 31 March 2019	<u>257</u>	<u>152</u>	<u>2,547</u>	<u>2,699</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 2019.

**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.

## Agenda Item 6

### Note 20 Unusable Reserves

	31/03/18	Movement in Year	31/03/19
	£'000	£'000	£'000
Capital Adjustment Account	(26,040)	(4,018)	(30,058)
Revaluation Reserve	(16,946)	(1,866)	(18,812)
Accumulated Absences Account	152	-	152
Collection Fund Adjustment Account	(327)	(55)	(382)
Pensions Reserve	91,413	(3,839)	87,574
Deferred Capital Receipts Reserve	(167)	9	(158)
<b>Total Unusable Reserves</b>	<b>48,085</b>	<b>(9,769)</b>	<b>38,316</b>

### 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.

## Capital Adjustment Account

2017/18 £'000		2018/19 £'000
(26,567)	Balance at 1 April	(26,040)
-	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	(736)
717	Charges for depreciation and impairment of non current assets	682
5,771	Revaluation Losses on Property, Plant and Equipment	27
1,336	Revenue expenditure funded from capital under statute	4,589
-	Deferred Capital Receipts movement	-
149	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	50
7,973		4,612
(179)	Adjusting Amounts written out of the Revaluation Reserve	(99)
7,794	Net Written out amount of the cost of non current assets consumed in the year	4,513
	<b>Capital Financing applied in the year:</b>	
(371)	Use of the Capital Receipts Reserve to finance new capital expenditure	(148)
-		-
(1,318)	Capital Grants and contributions credited to the Comprehensive Income and expenditure statement that have been applied to capital financing	(3,946)
-	Non-specific capital grant	-
-	Unapplied Account	-
(4,596)	Capital Expenditure charged against the General Fund	(4,130)
(150)	Statutory provision for the repayment of debt	(150)
(6,435)		(8,374)
(832)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	(157)
(26,040)	Balance at 31 March	(30,058)

## Agenda Item 6

### 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.

2017/18			2018/19	
£'000	£'000		£'000	£'000
	(18,649)	Balance at 1 April		(16,946)
(204)		Upward Revaluation of Assets	(2,331)	
1,728		Downward Revaluation of Assets and impairment losses not charged to Surplus Deficit on the Provision of Services	366	
		Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on Provision of Services	(1,965)	(1,965)
1,524	1,524	Difference between fair value depreciation and historical cost depreciation		99
	82	Accumulated gains on assets sold or scrapped		-
	(16,946)	<b>Balance at 31 March</b>		<b>(18,812)</b>

### 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.

2017/18			2018/19	
£'000	£'000		£'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		<b>Balance at 31 March</b>		<b>152</b>

### 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.

2017/18 £'000		2018/19 £'000
103	Balance at 1 April	(327)
(430)	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	(55)
(327)	Balance at 31 March	(382)

### 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.

2017/18 £'000		2018/19 £'000
97,257	Balance at 1 April	91,413
(9,235)	Actuarial Gains/(Losses) on pensions assets and liabilities	(6,731)
6,692	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	6,291
(3,301)	Employer's pensions contributions and direct payments to pensioners payable in the year	(3,399)
91,413	Balance at 31 March	87,574

## Agenda Item 6

### 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.

2017/18 £'000		2018/19 £'000
(175)	Balance at 1 April	(167)
7	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure statement	8
1	Transfer to the Capital receipts reserve upon receipt of cash	1
(167)	Balance at 31 March	(158)

### Note 21. Cash Flow Statement – Operating Activities

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

2017/18 £'000		2018/19 £'000
(717)	Depreciation	(682)
(4,939)	Impairment and downward valuations	866
-	Amortisation	-
(128)	Increase in impairment provision for bad debts	(198)
(1,577)	(Increase)/Decrease in creditors	27
202	Increase/(Decrease) in debtors / payments in advance	3,178
(2)	Increase/(Decrease) in stock	23
(3,391)	Pension liability	(2,892)
(149)	Carrying amount of non-current assets sold	(50)
579	Other non-cash items charged to the net surplus or deficit on the provision of services	935
<u>(10,122)</u>	<b>Net cashflows from operating activities</b>	<u>1,207</u>

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

2017/18 £'000		2018/19 £'000
-	Purchase of short-term and long-term investments	-
881	Proceeds from short-term and long-term investments	1,191
277	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	657
<u>1,158</u>		<u>1,848</u>

The cash flows for operating activities include the following items:

2017/18 £'000		2018/19 £'000
(131)	Interest received	(329)
-	Interest paid	138

**Note 22. Cash Flow Statement – Investing Activities**

2017/18 £'000		2018/19 £'000
9,264	Purchase of property, plant & equipment, investment property and intangible assets	11,968
4,987	Purchase of short term and long term investments	215
	Other payments for investing activities	
(278)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(660)
(131)	Proceeds from sale of short-term and long-term investments	(6,159)
(89)	Other receipts from investing activities	(993)
<u>13,753</u>	<b>Net Cash Flow from Investing activities</b>	<u>4,371</u>

**Note 23. Cash Flow Statement – Financing Activities**

2017/18 £'000		2018/19 £'000
(5,307)	Cash receipts of short and long term borrowing	-
(2,193)	Other receipts from financing activities	(635)
(7)	Cash receipts for finance leases	(8)
-	Other payments for financing activities	293
<u>(7,507)</u>	<b>Net Cash Flow from Financing activities</b>	<u>(350)</u>

## Agenda Item 6

### 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
<b>Chief Officer Income and Expenditure 2017/18</b>						
	£'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)
<b>Total Income</b>	<b>(724)</b>	<b>(579)</b>	<b>(5,514)</b>	<b>(28,036)</b>	<b>(1,564)</b>	<b>(36,417)</b>
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
<b>Total Expenditure</b>	<b>2,188</b>	<b>3,493</b>	<b>10,342</b>	<b>32,407</b>	<b>2,745</b>	<b>51,175</b>
<b>Net Expenditure</b>	<b>1,464</b>	<b>2,914</b>	<b>4,828</b>	<b>4,371</b>	<b>1,181</b>	<b>14,758</b>
<b>Chief Officer Income and Expenditure 2018/19</b>						
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Service Income	(579)	(169)	(5,829)	(987)	(1,437)	(9,001)
Grants	(536)	(35)	(40)	(26,075)	(34)	(26,720)
<b>Total Income</b>	<b>(1,115)</b>	<b>(204)</b>	<b>(5,869)</b>	<b>(27,062)</b>	<b>(1,471)</b>	<b>(35,721)</b>
Employee Expenses	1,333	2,106	2,265	1,427	1,885	9,016
Other Service Expenses	1,352	1,095	8,450	30,191	846	41,934
<b>Total Expenditure</b>	<b>2,685</b>	<b>3,201</b>	<b>10,715</b>	<b>31,618</b>	<b>2,731</b>	<b>50,950</b>
<b>Net Expenditure</b>	<b>1,570</b>	<b>2,997</b>	<b>4,846</b>	<b>4,556</b>	<b>1,261</b>	<b>15,230</b>

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

**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.

2017/18 £'000		2018/19 £'000
14,758	Net Expenditure in Chief Officer Analysis	15,230
6,495	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	1,620
-	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement.	-
<u>21,253</u>	Cost of Services in Comprehensive Income and Expenditure Statement	<u>16,850</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 2017/18	Chief Officer Analysis £'000	Amounts not reported to management £'000	Amounts not included in I&E £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'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)
<b>Total Income</b>	<b>(36,417)</b>	<b>(1,347)</b>	<b>-</b>	<b>(37,764)</b>	<b>(23,093)</b>	<b>(60,857)</b>
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				-		-
<b>Total Expenditure</b>	<b>51,175</b>	<b>7,842</b>	<b>-</b>	<b>59,017</b>	<b>6,647</b>	<b>65,664</b>
<b>services</b>	<b>14,758</b>	<b>6,495</b>	<b>-</b>	<b>21,253</b>	<b>(16,446)</b>	<b>4,807</b>

## Agenda Item 6

### Reconciliation to Subjective Analysis (Cont).

Reconciliation to Subjective Analysis 2018/19	Chief Officer Analysis £'000	Amounts not reported to manage- ment £'000	Amounts not included in I&E £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges & Other Service Inc.	( 9,001)	( 58)		( 9,059)	( 209)	( 9,268)
Interest Income				-	( 329)	( 329)
Investment Income				-	( 1,000)	( 1,000)
Disposal of Items of Property Plant & Equipment				-	( 656)	( 656)
Income from Council Tax and NDR				-	( 18,212)	( 18,212)
Movement on Fair Value of Investment Property				-	( 157)	( 157)
Government Grants and Contributions	( 26,718)			( 26,718)	( 2,932)	( 29,650)
Capital Grants and Contributions		( 2,917)		( 2,917)	( 2,415)	( 5,332)
<b>Total Income</b>	<b>( 35,719)</b>	<b>( 2,975)</b>	<b>-</b>	<b>( 38,694)</b>	<b>( 25,910)</b>	<b>( 64,604)</b>
Employee Expenses	9,016	737		9,753	2,289	12,042
Other Service Expenses	41,935	4,372		46,307		46,307
Depreciation, amortisation and Impairment		( 542)		( 542)		( 542)
Interest Payments & similar payments		27		27	138	165
Precepts & Levies				-	4,227	4,227
Payments to Housing Capital Receipts Pool				-	1	1
Gain or loss on disposal of non current assets				-		-
Capital Grants and Contributions				-		-
<b>Total Expenditure</b>	<b>50,951</b>	<b>4,594</b>	<b>-</b>	<b>55,545</b>	<b>6,655</b>	<b>62,200</b>
<b>services</b>	<b>15,232</b>	<b>1,619</b>	<b>-</b>	<b>16,850</b>	<b>( 19,255)</b>	<b>( 2,404)</b>

Note 24.d Expenditure and Income analysed by nature

2017/18 £'000	Expenditure and Income analysed by nature	2018/19 £'000
	<b>Expenditure</b>	
12,042	Employee Benefit Expenses	14,331
43,609	Other Service Expenses	44,018
5,921	Depreciation, amortisation and impairment	( 542)
-	Loss on Disposal of non current assets	-
85	Interest payments	165
4,006	Precepts and levies	4,227
1	Payment to Housing Capital Receipts Pool	1
65,664	Total Expenditure	62,200
	<b>Income</b>	
( 9,092)	Fees and Charges and other service income	( 9,268)
( 15,519)	Income from Council Tax and Business Rates	( 18,212)
( 30,839)	Government Grants and contributions	( 29,650)
( 938)	Interest and Investment income	( 1,329)
( 127)	Gain on disposal of non current assets	( 656)
( 832)	Movement on Fair Value of Investment Property	( 157)
( 3,511)	Capital Grants and Contributions	( 5,332)
( 60,858)	Total Income	( 64,604)
4,806	Net Service cost/income	( 2,404)

## Agenda Item 6

### Note 24.e Segmental Income and Expenditure

Income and expenditure on a segmental basis						
2018/19	Comm-unities & Business	Corporate Services	Environ-mental & Opnl	Finance	Planning	Total
<b>Expenditure</b>						
Employee Benefit Expenses	1,707	2,260	2,869	2,752	2,454	<b>12,042</b>
Other Service Expenses	2,022	(1,191)	11,377	28,552	3,257	<b>44,017</b>
Depreciation, amortisation & impairment	32	-	(574)	-	-	<b>(542)</b>
Interest payments	-	-	-	27	-	<b>27</b>
Total Segmental Expenditure	<u>3,761</u>	<u>1,069</u>	<u>13,672</u>	<u>31,331</u>	<u>5,711</u>	<b>55,544</b>
<b>Income</b>						
Fees and Charges and other service income	(566)	(165)	(5,943)	(1,151)	(1,234)	<b>(9,059)</b>
Benefits and other Gov. grants	(536)	(35)	(1,539)	(26,075)	(1,451)	<b>(29,636)</b>
Total Segmental Income	<u>(1,102)</u>	<u>(200)</u>	<u>(7,482)</u>	<u>(27,226)</u>	<u>(2,685)</u>	<b>(38,695)</b>
Net Segmental Expenditure	2,659	869	6,190	4,105	3,026	<b>16,850</b>
<b>Reconciliation to CIES</b>						
Other Income and Expenditure not segmentally reported						<u><b>(19,254)</b></u>
Net Service Expenditure						<u><b>(2,404)</b></u>

Note 24.e Segmental Income and Expenditure (cont)

Income and expenditure on a segmental basis						
2018/19	Comm-unities & Business	Corporate Services	Environ-mental & Opnl	Finance	Planning	Total
<b>Expenditure</b>						
Employee Benefit Expenses	1,707	2,260	2,869	2,752	2,454	12,042
Other Service Expenses	2,022	(1,191)	11,377	28,552	3,257	44,017
Depreciation, amortisation & impairment	32	-	(574)	-	-	(542)
Interest payments	-	-	-	27	-	27
<b>Total Segmental Expenditure</b>	<b>3,761</b>	<b>1,069</b>	<b>13,672</b>	<b>31,331</b>	<b>5,711</b>	<b>55,544</b>
<b>Income</b>						
Fees and Charges and other service income	(566)	(165)	(5,943)	(1,151)	(1,234)	(9,059)
Benefits and other Gov. grants	(536)	(35)	(1,539)	(26,075)	(1,451)	(29,636)
<b>Total Segmental Income</b>	<b>(1,102)</b>	<b>(200)</b>	<b>(7,482)</b>	<b>(27,226)</b>	<b>(2,685)</b>	<b>(38,695)</b>
<b>Net Segmental Expenditure</b>	<b>2,659</b>	<b>869</b>	<b>6,190</b>	<b>4,105</b>	<b>3,026</b>	<b>16,850</b>
<b>Reconciliation to CIES</b>						
Other Income and Expenditure not segmentally reported						(19,254)
Net Service Expenditure						(2,404)

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 2018/19

(Surplus)/ Deficit 2017/18 £'000		Income £'000	Expend. £'000	(Surplus)/ Deficit 2018/19 £'000
	<b>Direct Services</b>			
(8)	Refuse Collection	(2,565)	2,625	60
(82)	Street Cleansing	(1,367)	1,358	(9)
(117)	Other Operational Accounts	(2,327)	2,106	(221)
(13)	Overhead Accounts	(1,247)	1,208	(39)
<b>(220)</b>		<b>(7,506)</b>	<b>7,297</b>	<b>(209)</b>

## Agenda Item 6

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 2017/18 £'000		Income £'000	Expend. £'000	(Surplus) /Deficit 2018/19 £'000
	<b>Direct Services</b>			
28	Refuse Collection	(2,565)	2,662	97
(71)	Street Cleansing	(1,367)	1,369	2
(107)	Other Operational Accounts	(2,327)	2,116	(211)
(10)	Overhead Accounts	(1,247)	1,211	(36)
<u>(160)</u>		<u>(7,506)</u>	<u>7,358</u>	<u>(148)</u>

### Subjective Analysis for the Trading Operation

2017/18 £'000		2018/19 £'000
(1,432)	Revenues from External Customers	(2,070)
(5,882)	Income from Internal Customers	(5,436)
<u>(7,314)</u>	Total Income	<u>(7,506)</u>
3,292	Employee Expenses (inc Agency staff)	3,432
567	Depreciation	575
3,295	Other Service Expenditure	3,351
<u>7,154</u>	Total Expenditure	<u>7,358</u>
<u>(160)</u>	Net Trading Income	<u>(148)</u>

**Note 26. Members' Allowances**

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

2017/18 £'000		2018/19 £'000
377	Allowances	386
15	Expenses	15
<u>392</u>	Total	<u>401</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:

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

2018/19	Salary £	Bonuses £	Expenses £	Com- pen- sation Loss of employ- ment £	Pension £	Other Emol- uments £	Total £
Chief Executive	153,840	-	59	-	24,461	1,614	179,973
Chief Finance Officer	99,694	500	153	-	15,931	-	116,278
Chief Officer Corporate Services	99,694	500	97	-	15,931	170	116,392
Chief Officer Communities and Business	81,148	500	83	-	12,982	-	94,714
Chief Planning Officer	99,694	500	-	-	15,931	-	116,124
Chief Officer Environmental and Operations	99,694	500	74	-	15,931	-	116,198
Head of Strategy and Transformation	66,115	500	-	-	10,592	-	77,207
Head of Legal and Democratic Services	66,704	500	53	-	10,685	-	77,942

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

## Agenda Item 6

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			Number of Employees
2017/18			2018/19
3	£50,000 - £55,000		2
8	£55,001 - £60,000		4
1	£60,001 - £65,000		4
-	£65,001 - £70,000		2
1	£70,001 - £75,000		3
-	£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	
	17/18	18/19	17/18	18/19	17/18	18/19	17/18 £'000	18/19 £'000
£0 - £20,000	1	-	13	1	14	1	43	10
£20,001 - £40,000	-	-	-	-	-	-	-	0
£40,001 - £60,000	-	1	-	-	-	1	-	52
£60,001 - £80,000	-	-	-	-	-	-	-	0
£80,001 - £100,000	-	-	-	-	-	-	-	0
Over £100k	-	-	-	-	-	-	-	0
<b>Total</b>	<b>1</b>	<b>1</b>	<b>13</b>	<b>-</b>	<b>14</b>	<b>2</b>	<b>43</b>	<b>62</b>

### 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.

2017/18		2018/19
£'000		£'000
43	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor	35
-	Fees Payable to external auditors in respect of statutory inspections	-
14	Fees payable to external auditors for the certification of grant claims and returns	13
-	Fees payable in respect of other services provided by external auditors during the year	-
<b>57</b>	<b>Total</b>	<b>48</b>

**Note 29. Grant income**

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

2017/18 £'000		2018/19 £'000
	<b>Credited to Taxation and Non Specific Grant Income</b>	
( 2,193)	Community Infrastructure Levy	( 1,665)
-	Access Improvement	( 750)
( 1,756)	New Homes Bonus (MHCLG)	( 1,320)
( 1,235)	S31 Small Business Rate Reduction	( 1,602)
( 9)	S31 Council Tax Family Annexes	( 10)
( 142)	S31 Discretionary Business Rate Reduction	-
( 123)	Transitional Grant (MHCLG)	-
<u>( 5,458)</u>	<b>Total</b>	<u>( 5,347)</u>
	<b>Credited to Services</b>	
( 26,599)	Benefit Subsidy (DWP)	( 25,599)
( 647)	Better Care Fund (was Disabled Facilities Grant) (KCC)	( 1,499)
( 659)	Community Facility Improvements	( 1,418)
( 381)	Housing Benefit Administration (DWP)	( 353)
( 121)	New Burdens (MHCLG)	( 197)
( 155)	Flexible Homelessness (MHCLG)	( 179)
( 87)	Homelessness (MHCLG)	( 159)
( 117)	Choosing Health PCT (KCC)	( 117)
( 31)	Communities against Drugs (KCC)	( 34)
( 22)	Individual Electoral Registration (CO)	( 17)
-	EU Exit Fund (MHCLG)	( 17)
-	Mental Health (KCC/ MHCLG)	( 15)
( 29)	Historic England	-
( 45)	Other	( 31)
<u>( 28,893)</u>	<b>Total</b>	<u>( 29,635)</u>

## Agenda Item 6

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:

2017/18 £'000		2018/19 £'000
	<b>Capital Grants Receipts in Advance</b>	
( 411)	Better Care Fund (KCC)	( 21)
-	Community Infrastructure Levy	-
( 12)	Regional Housing Pot (KCC/MHCLG)	( 12)
<u>( 423)</u>	Total	<u>( 33)</u>

2017/18 £'000		2018/19 £'000
	<b>Revenue Grants Receipts in Advance</b>	
( 6,193)	Section 106 receipts	( 6,959)
( 39)	Historic England	-
<u>( 6,232)</u>	Total	<u>( 6,959)</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 2019 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 2018/19 is shown in note 26. Returns were obtained from Members in respect of the 2018/19 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.

Related party disclosure forms were sent to all members and chief officers who had served during the year. However a number of forms were not returned so the disclosure has been based on their previous years returns.

Paid to (Supplier) £'000	2017/18		Organisation	Paid to (Supplier) £'000	2018/19	
	Received From (Customer) £'000	Balance at 31/03/18 £'000			Received From (Customer) £'000	Balance at 31/03/19 £'000
2	1	0	New Ash Green Village Association Ltd	0	0	0
1	1	0	Stag Community Arts Centre	3	0	0
8	12	0	West Kent Mind	46	15	0

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

2017/18 £'000	Organisation	2018/19 £'000
3	Sevenoaks District Arts Council	3
3	Sevenoaks District Sports Council	3
99	Citizens Advise Burueax	99

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 Quercus Housing 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 £26,950 (2017/18 £36,950) and a Development Fee of £20,000 (2017/18 £20,000). Two members are Sevenoaks District Council appointed directors of Sevenoaks Leisure Limited. A loan of £600,000 was given to Sevenoaks Leisure Limited to refurbish the fitness centre at Sevenoaks Leisure Complex. The term of the loan was 10 years, with a redemption date of March 2028 and interest of 6% 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 capital.

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 acquired its first commercial property but due to the value of the acquisition group accounts are not required. During the year the company were given credit facilities for business expenses totalling £106,569. Quercus 7 Limited has secured long term borrowing of £321,866.

## Agenda Item 6

### Quercus Housing Limited

Council on 21 November 2017 authorised the incorporation of a company and this was incorporated on 13 April 2018 (Quercus Housing Limited Number 11307980). 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 company is limited by guarantee.

Sevenoaks District Council has ultimate control over the activities of the Company and the Company's operational matters. The Company will enable the Council to operate develop affordable housing using Section 106 receipts.

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 £77,679.

### 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.

2017/18 £'000		2018/19 £'000
(9,642)	<b>Opening Capital Financing Requirement</b>	(13,807)
	Capital Investment:	
9,062	Property, Plant & Equipment	11,765
-	Intangible Assets	-
-	Surplus Assets	-
202	Investment Properties	203
1,336	Revenue Expenditure Funded from Capital under Statute	4,589
<u>10,600</u>		<u>16,557</u>
	<b>Sources of Finance:</b>	
(371)	Capital Receipts	(148)
(1,318)	Government Grants and other contributions	(2,917)
(4,596)	Sums set aside from revenue	(4,130)
<u>(6,285)</u>		<u>(7,195)</u>
<u>150</u>	MRP for the year	<u>150</u>
<u>(13,807)</u>	Closing Capital Financing Requirement	<u>(23,019)</u>

**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 (£41,516 in 2017/18).

31/03/18		31/03/19
£'000	Minimum Lease Payments	£'000
48	Not later than one year	48
197	Later than one year and not later than five years	202
273	Later than five years	221
<u>518</u>	Total	<u>471</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.

31/03/18		31/03/19
£'000		£'000
928	Not later than one year	1,470
3,511	Later than one year and not later than five years	5,001
1,287	Later than five years	7,457
<u>5,725</u>		<u>13,928</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.

## Agenda Item 6

### 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.

31/03/18		31/03/19
£'000		£'000
225	Gross Investment in the Lease	200
31	Estimated Residual value	31
154	Net Investment in the lease (Gross Investment discounted by implic	145
71	Unearned Finance Income	55
The gross investment in the lease will be received over the following periods.		
23	Not later than one year	23
115	Later than one year and not later than 5 years	114
86	Later than 5 years	62
<u>224</u>	<u>Total</u>	<u>199</u>

### Note 33. Impairment Losses

During 2018/19 there were no impairment losses on the Council's property assets.

### Note 34. Termination Benefits

The Authority terminated the contracts of 2 employees in 2018/19, incurring costs of £62,000 (£43,000 in 2017/18) – 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:

## Agenda Item 6

2017/18 £'000		2018/19 £'000
<b>Comprehensive Income and Expenditure Statement</b>		
	Cost of Services	
	Service cost comprising:	
4,066	Current Service cost	3,956
-	Past Service costs	-
2,626	Net Interest Expense (includes administration expense)	2,335
6,692	the Provision of Services	6,291
Other post employment charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined liability comprising:		
	Return on plan assets (excluding the amount included in the net	
(663)	interest expense)	(4,805)
-	Other actuarial (gains)/losses on assets	-
-	Actuarial (gains) and losses arising on change in demographic assumptions	(10,219)
(8,572)	Actuarial (gains) and losses arising on changes in financial assumptions	8,293
-	Other	-
(9,235)	Total post employment benefits charged to the Comprehensive Income and Expenditure statement	(6,731)
<b>Movement in Reserves Statement</b>		
	Reversal of net charges made to the Surplus or Deficit on the	
	Provision of Services for post employment benefit in accordance with	
6,692	the Accounting Code of Practice	6,291
	Actual Amount charged against the General Fund balance for pensions in the year	
3,301	Employers contributions payable to the scheme	3,399

### Pensions Assets and Liabilities recognised in the Balance Sheet

2017/18 £'000		2018/19 £'000
	<b>Present value of the Defined Obligations</b>	
(181,594)	Present value of Funded Liabilities	(184,004)
(1,913)	Present Value of Unfunded Liabilities	(1,721)
(183,507)	Total Defined Benefit Obligation	(185,725)
92,094	Fair Value of plan assets (at bid value)	98,151
(91,413)		(87,574)

### Reconciliation of movements in the fair value of scheme assets

2017/18 £'000		2018/19 £'000
90,041	Opening fair value of scheme assets	92,094
2,418	Interest on assets	2,335
663	Return on assets less interest	4,805
-	Other actuarial gains/(losses)	-
(44)	Administration expense	(46)
3,301	Contributions from employer	3,399
703	Contributions from scheme participants	728
(4,988)	Estimated benefits paid plus unfunded net of transfers in	(5,164)
92,094	Closing Value of scheme assets	98,151

Reconciliation of the movements in defined benefit obligation

2017/18		2018/19
£'000		£'000
187,298	Opening Defined Benefit Obligation	183,507
4,066	Current Service Cost	3,956
5,000	Interest Cost	4,624
(8,572)	Change in Financial Assumptions	8,293
-	Change in Demographic assumptions	(10,219)
-	Experience loss/(gain) on defined benefit obligation	-
(4,810)	Estimated benefits paid net of transfers in	(4,992)
-	Past service costs including curtailments	-
703	Contributions by scheme participants	728
(178)	Unfunded pension payments	(172)
183,507	Closing Defined Benefit Obligation	185,725

Scheme Assets

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

31/03/18		31/03/19
%		%
66	Equity investments	68
1	Gilts	1
10	Bonds	9
13	Property	12
3	Cash	2
7	Absolute Return Fund	8
100	Total	100

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:

## Agenda Item 6

2017/18		2018/19
Mortality Assumptions:		
Longevity at 65 for current pensioners		
23	Men	22
25	Women	24
Longevity at 65 for future pensioners		
25	Men	24
28	Women	26
Financial Assumptions		
2.30%	Rate of Inflation (CPI)	2.40%
3.80%	Rate of increase in salaries	3.90%
2.30%	Rate of increase in pensions	2.40%
2.55%	Rate for discounting scheme liabilities	2.40%
50.00%	Take-up of option to convert annual pension into retirement lump sum	50.00%

Barnett Waddingham estimate the duration of Employers liabilities at 18 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.

### 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 £185.7m.

	Increase of 0.1% £'000	Decrease of 0.1% £'000
Adjustment to discount rate		
Present value of total obligation	182,397	189,116
Projected Service Cost	3,846	4,026
Adjustment to long term salary increase		
Present value of total obligation	185,994	185,457
Projected Service Cost	3,935	3,935
Adjustment to pensions increases and deferred revaluation		
Present value of total obligation	188,843	182,662
Projected Service Cost	4,026	3,846
	Increase 1 year	Decrease 1 year
Adjustment to mortality age rating assumptions		
Present value of total obligation	192,464	179,223
Projected Service Cost	4,070	3,804

**Projected Pension Expense for the year to 31 March 2020**

	2018/19 Projection £'000
Service Cost	3,935
Net interest on the defined liability	2,060
Administration expense	49
Total	<u>6,044</u>
Employer Contributions	3,263

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**

**Non domestic rates on ATMs**

On 9th November 2018, the Court of Appeal concluded a long-running dispute, in effect reversing the Upper Tribunal's judgement that business rates were payable on ATMs on the grounds that they were separate hereditaments for rating purposes. As the decision affects both the 2010 and 2017 rating lists, it has been estimated that the likely cost to the Council will be £446,000 before consideration of future years' income. The Valuation Office Agency has since asked for permission to

## Agenda Item 6

appeal to the Supreme Court. It is understood that the Supreme Court may take up to June 2019 to decide whether or not to hear the case as well as a further two years before making its judgement.

### **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.

Oxford 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.

### **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.

2017/18			2018/19			
Council Tax £000	NDR £000	Total £000		Council Tax £000	NDR £000	Total £000
<b><u>Income</u></b>						
84,467	-	84,467	Billed to Council Tax Payers	89,614	-	89,614
-	33,503	33,503	Income from Business Ratepayers	-	36,279	36,279
389	311	700	Reduction in Bad Debts Provision	54	-	54
-	2,569	2,569	Reduction in Provision for Appeals	-	522	522
-	182	182	Transitional Protection	-	530	530
-	287	287	Reimbursement of previous year's estimated Collection Fund deficit	-	-	-
<b>84,856</b>	<b>36,852</b>	<b>121,708</b>		<b>89,668</b>	<b>37,331</b>	<b>126,999</b>
<b><u>Expenditure</u></b>						
Precepts & Demands:						
58,213	3,039	61,252	Kent County Council	61,764	20,509	82,273
7,761	-	7,761	Police & Crime Commissioner for Kent	8,441	-	8,441
3,622	338	3,960	Kent & Medway Fire & Rescue Authority	3,768	348	4,116
10,013	13,505	23,518	Sevenoaks District Council	10,420	13,904	24,324
4,006	-	4,006	Town & Parish Councils	4,227	-	4,227
Business Rates:						
-	16,881	16,881	Payments to Government	-	-	-
-	164	164	Cost of Collection Allowance	-	163	163
-	-	-	Transitional Protection	-	-	-
Bad and Doubtful Debts:						
507	-	507	Provision for Non Payment	537	69	606
-	1,976	1,976	Provision for Appeals	-	1,310	1,310
80	148	228	Write Offs	110	40	150
-	-	-	Contribution towards previous year's estimated Collection Fund surplus	1,519	379	1,898
<b>84,202</b>	<b>36,051</b>	<b>120,253</b>		<b>90,786</b>	<b>36,722</b>	<b>127,508</b>
654	801	1,455	<b>(DEFICIT)/SURPLUS FOR YEAR</b>	<b>(1,118)</b>	<b>609</b>	<b>(509)</b>
<b>COLLECTION FUND BALANCE</b>						
508	(472)	36	Balance at beginning of year	1,162	329	1,491
654	801	1,455	(Deficit)/Surplus for year	(1,118)	609	(509)
<b>1,162</b>	<b>329</b>	<b>1,491</b>	<b>BALANCE AT END OF YEAR</b>	<b>44</b>	<b>938</b>	<b>982</b>

## Agenda Item 6

### 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 2018/19 was approved by Cabinet in January 2018 as follows:

2017/18			2018/19			
Band	Estimated no. of taxable properties	Ratio	Band D equivalent dwellings	Estimated no. of taxable properties	Ratio	Band D equivalent dwellings
A*	2.57	5/9ths	1.40	3.06	5/9ths	1.70
A	995.68	6/9ths	663.80	1,017.37	6/9ths	678.20
B	1,916.90	7/9ths	1,490.90	1,947.96	7/9ths	1,515.10
C	8,246.78	8/9ths	7,330.50	8,437.97	8/9ths	7,500.40
D	9,843.80	9/9ths	9,843.80	9,951.51	9/9ths	9,951.50
E	6,585.23	11/9ths	8,048.60	6,640.51	11/9ths	8,116.20
F	5,399.29	13/9ths	7,799.00	5,429.43	13/9ths	7,842.50
G	7,124.89	15/9ths	11,874.80	7,158.47	15/9ths	11,930.80
H	1,305.69	18/9ths	2,611.40	1,324.95	18/9ths	2,649.90
	<u>41,420.83</u>		<u>49,664.20</u>	<u>41,911.23</u>		<u>50,186.30</u>
Contributions in lieu for Crown property			16.00			15.90
			<u>49,680.20</u>			<u>50,202.20</u>
Collection rate adjustment			99.40%			99.40%
<b>Council Tax Base</b>			<u><b>49,382.42</b></u>			<u><b>49,902.89</b></u>

The tax rate for a band D property in 2018/19 was £1,691.14, excluding Town and Parish Council taxes (2017/18 = £1,612.09).

	2017/18	2018/19
	£	£
Kent County Council	1,178.82	1,237.68
Police & Crime Commissioner for Kent	157.15	169.15
Kent & Medway Fire & Rescue Authority	73.35	75.51
Sevenoaks District Council	202.77	208.80
	<u>1,612.09</u>	<u>1,691.14</u>
Town & Parish Councils (Average)	81.13	84.71
<b>TOTAL (including an average town &amp; parish rate)</b>	<u>1,693.22</u>	<u>1,775.85</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. 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.

This Council joined with all of the other councils in Kent, including Kent County Council and Medway Council, in a successful bid to take part in a government pilot for 100% business rates retention in 2018/19. The ambition is to test the aptitude for collaboration when giving local authorities more autonomy to keep all of their business rates income and forego some existing grants. Grants and business rates tariffs will be adjusted to reflect the additional business rates income that will be retained but the government has underwritten the scheme with a “No Detriment” clause.

Non-domestic rates are calculated on a national basis. For 2018/19, the Government specified a “rate poundage” of 49.3p (2017/18: 47.9p) for large businesses or 48.0p (2017/18: 46.6p) for small businesses and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount.

The NDR income after relief and provisions of £36,279,000 for 2018/19 (2017/18: £33,503,000) was based on the total rateable value for the Council's area, which at 31 March 2019 was £93,946,679 (31 March 2018: £94,102,418). 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 2018, the estimated balance at 31 March 2018 in respect of council tax transactions was a surplus of £1,519,501. It was 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 2017/18 and taken into account by the respective authorities in the calculation of their council taxes for 2018/19. The actual position at 31 March 2018 was a surplus of £1,162,257.

The actual surplus of £43,682 at 31 March 2019 in respect of council tax and the actual surplus of £938,010 in respect of NDR will be taken into account when estimating the surplus or deficit for 2019/20.

## Agenda Item 6

### 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 £000	PCC £000	KMFRA £000	Gov't £000	SDC £000	Total £000	
2017/18	<b>Council Tax:</b>						
	Arrears	3,204	438	196	-	760	<b>4,598</b>
	Provision for Bad Debts	(1,376)	(188)	(84)	-	(327)	<b>(1,975)</b>
	Prepayments & Refunds	(1,815)	(248)	(111)	-	(430)	<b>(2,604)</b>
	Cash	796	105	50	-	193	<b>1,144</b>
	(Surplus)/Deficit	(809)	(107)	(51)	-	(196)	<b>(1,163)</b>
	<b>NDR:</b>						
	Arrears	157	-	17	873	698	<b>1,745</b>
	Provision for Bad Debts	(43)	-	(5)	(238)	(190)	<b>(476)</b>
	Provision for Appeals	(502)	-	(56)	(2,789)	(2,232)	<b>(5,579)</b>
	Prepayments & Refunds	(181)	-	(20)	(1,005)	(804)	<b>(2,010)</b>
	Cash	599	-	67	3,323	2,660	<b>6,649</b>
	(Surplus)/Deficit	(30)	-	(3)	(164)	(132)	<b>(329)</b>
<b>Total</b>	-	-	-	-	-	-	
2018/19	<b>Council Tax:</b>						
	Arrears	3,655	543	219	-	849	<b>5,266</b>
	Provision for Bad Debts	(1,706)	(254)	(102)	-	(396)	<b>(2,458)</b>
	Prepayments & Refunds	(1,707)	(254)	(102)	-	(397)	<b>(2,460)</b>
	Cash	(211)	(31)	(13)	-	(49)	<b>(305)</b>
	(Surplus)/Deficit	(30)	(5)	(2)	-	(7)	<b>(44)</b>
	<b>NDR:</b>						
	Arrears	1,134	-	19	-	769	<b>1,922</b>
	Provision for Bad Debts	(321)	-	(5)	-	(218)	<b>(544)</b>
	Provision for Appeals	(3,757)	-	(64)	-	(2,547)	<b>(6,367)</b>
	Prepayments & Refunds	(923)	-	(16)	-	(626)	<b>(1,564)</b>
	Cash	4,445	-	75	(25)	2,996	<b>7,491</b>
	(Surplus)/Deficit	(578)	-	(9)	25	(375)	<b>(938)</b>
<b>Total</b>	-	-	-	-	-	-	

## 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 2018/19** (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.

## Agenda Item 6

**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.

**ECL.** Expected credit loss. Credit loss in relation to a financial instrument is a cash shortfall measured by the difference between the net present value of all contractual cash flows that are due to an authority in accordance with the contract for the instrument and the net present value of all the cash flows that the authority expects to receive, discounted at the original effective interest rate.

**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.

**FAC.** Finance Advisory Committee.

**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.

**FVCOI.** Fair value through other comprehensive income, a class of Financial Assets.

**FVPL.** Fair value through profit or loss, a class of Financial Instruments.

**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)

**MRP.** Minimum Revenue Provision.

**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

**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.

## Agenda Item 6

**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.

**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.

<b>Band</b>	<b>Value</b>	<b>Proportion</b>
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 2018/19

#### 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, in particular the Annual Audit Opinion;
- 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 is owned by all Senior Officers and Members of the Council, because governance itself relies on all Officers and Members. 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 and 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. Under the Local Government Act 1999 the Council has a duty 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 (Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives) Framework Delivering Good Governance in Local Government. A copy of the code can be obtained from the Internal Audit Team 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 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 to assess 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 and delivering objectives and priorities.

3.3 The governance framework has been in place at Sevenoaks District Council for the year ended 31 March 2019 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 up to November 2018 were set out in its Corporate Plan, and was replaced by the Council Plan for the remainder of the year, which was approved by Council on 20 November 2018. The Corporate Plan and Council 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.
- 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 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

The Council’s Internal Audit service is provided in partnership with Dartford Borough Council.

During 2018/19, the internal audit team have worked to deliver and achieve the annual audit plan, approved by the Audit Committee in April 2018. The service has provided regular updates to Members on the outcomes of audit work, progress on implemented audit actions, and also updates regarding the outstanding actions from the External Quality Assessment.

In August 2018 the Council entered into a secondment with Mid Kent Audit for the provision of an Audit Manager, a role that also fulfils the Chief Audit Executive functions. Over the course of the year the service has taken steps to review, update and improve delivery of audit work, and the Internal Audit process has been revised to reflect the requirements of the Public Sector Internal Audit Standards (PSIAS).

Internal audit have issued no adverse audit conclusions in 2018/19, and audit actions have been agreed and fully implemented. The Audit Committee request details of outstanding or deferred high priority actions, and while the Committee has not expressed any concerns over 2018/19, they have the power to invite Officers to attend meetings to provide updates directly.

Individual audit reports continue to be issued and distributed to relevant Chief Officers, with copies to the Chief Executive and Section 151 Officer.

## Agenda Item 6

The effectiveness of the Internal Audit service was assessed in 2017/18 (using the PSIAS checklist) following the formal follow-up of the EQA by PricewaterhouseCoopers. The assessment highlighted a number of outstanding actions which have been address during 2018/19. The assessment will be undertaken again in early 2019/20 to inform the Annual Audit Opinion. The outcomes, along with any actions will be reported to the Audit Committee in July 2019.

The service review and future strategy of the Internal Audit partnership will be finalised in the coming year (2019/20) and the Audit Committee, as those charged with governance, will provide continued oversight and direction as required. As such, the operation of the service will also be monitored by the Strategic Management Team, and the Section 151 Officer.

### b) External Audit

The external audit service is provided by Grant Thornton. The External Auditor's reports are sent to 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 2017/18.

### 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.

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 Risk Management Group and reported to the Audit Committee as appropriate.

Strategic risks are aligned to Council's promises and objectives and are actively monitored and updated throughout the year. In 2018/19 the strategic risk register was reviewed and updated, and was reported to the 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. 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, re-conferred by an external inspection regime in January 2019. The Council was the first local authority nationally to achieve this standard in 2016. Staff appraisals take place annually and are aligned to the values, behaviours and objectives of the Council. Training and development plans are part of the appraisal process and are used to identify any training needs over the year. As part of the ongoing commitment to develop and nurture staff 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.

## Agenda Item 6

### 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. There have been no issues raised during the year that have impacted on the governance framework for the Council.

### 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. There were no disclosures or internal investigations during the year.

## 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 2018/19.

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 2018/19, 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 audit service during the 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 2017/18, 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 available to the Audit Committee upon request, and the outcomes of audit work is reported regularly. Each year the Committee receive the Annual Internal Audit Report, which includes the Annual Opinion on the Council's internal control, risk management and governance arrangements. The interim opinion for 2018/19 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.

## 7. Review of Effectiveness

7.1 The Council is satisfied that appropriate governance arrangements are in place.

Certification

Signed:

Signed:

Dr. Pav Ramewal

Cllr Peter Fleming

Chief Executive

Leader of the

Date:

Council Date:

This page is intentionally left blank

## LOCAL CODE OF CORPORATE GOVERNANCE

### Audit Committee - 18 July 2019

Report of	Monitoring Officer
Status	For consideration
Key Decision	No
Portfolio Holder	Cllr Matthew Dickins
Contact Officer	Martin Goodman, Ext. 7245

#### Recommendation to Audit Committee: That

- (a) the Local Code of Corporate Governance set out in the Appendix be approved;
- (b) the Monitoring Officer continue to be authorised to maintain and amend the Local Code of Corporate Governance in line with good practice.

**Reason for recommendation:** The Committee agreed on 26 September 2017 that it would be good practice for the Committee to approve the Local Code of Corporate Governance once at the beginning of each electoral cycle.

#### Introduction and Background

- 1 The current Local Code of Corporate Governance was adopted by the Audit Committee on 26 September 2017. It was agreed at that time that it would be good practice for the Committee to approve the Local Code once at the beginning of each electoral cycle.
- 2 Since that time there has been no reason to revise the Local Code and this report accordingly seeks re-adoption of the existing document.

#### The Framework

- 3 International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) defines governance in the following way: *Governance comprises the arrangements put in place to ensure that intended outcomes for stakeholders are defined and achieved.*
- 4 It is recommended that authorities should test their governance structures and partnerships against the principles contained in the 'The Framework' (Delivering Good Governance in Local Government: Framework (2016) (CIPFA/SOLACE, 2016)) by developing and maintaining a Local Code of

## Agenda Item 7

Corporate Governance including arrangements for ensuring ongoing effectiveness.

- 5 'The Framework' has not been revised since the Local Code was adopted in 2017. However, from time-to-time it will be necessary for the Local Code to be amended in line with best practice and it is accordingly recommended that the Monitoring Officer be authorised to undertake such revisions as necessary.

### **Other Options Considered and/or Rejected**

No other options were considered as this report made pursuant to the adopted good practice of the Audit Committee.

### **Key Implications**

#### Financial

None.

#### Legal Implications and Risk Assessment Statement.

It is recognised that the Local Code need not necessarily be represented in one single document and could instead be made up of a number of codes or documents. To that end a named and adopted Local Code in the form presented in the Appendix is not legally required. However, the reputational risks and risk to good governance of not updating the Local Code in the light of the Internal Audit recommendations are considered significant enough to require this report. There is a low risk to adopting the Local Code set out in the Appendix.

#### 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 amended Local Code should be adopted and the Monitoring Officer given the authority to keep it up to date.

#### **Appendices**

Local Code of Corporate Governance

#### **Background Papers**

None.

**Martin Goodman**  
**Monitoring Officer**

## Local Code of Corporate Governance

### 1.0 Introduction

1.1 Sevenoaks District Council is committed to the principles of good corporate governance and wishes to confirm its ongoing commitment and intentions through the development, adoption and continued maintenance of a Local Code of Corporate Governance. Therefore this document sets out and describes the Council's commitment to corporate governance. It identifies the arrangements that have been made and will continue to be made, to ensure its effective implementation and application in all aspects of the Council's work.

### 2.0 Corporate Governance?

2.1 Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

2.2 International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) defines governance in the following way: *Governance comprises the arrangements put in place to ensure that intended outcomes for stakeholders are defined and achieved.*

2.3 Each local government body operates through a governance framework which brings together an underlying set of legislative requirements, governance principles and management processes.

2.4 The Council recognises that effective local government relies upon the public establishing and maintaining a level of confidence with both elected Members and Officers of the Council.

2.5 Setting high standards of self-governance provides a clear and demonstrable lead to both our existing and potential partners.

### 3.0 The 'Governing Body'

3.1 The governing body of an organisation has overall responsibility for directing and controlling that organisation. In local government the governing body is the full council or authority. In England, the Local Government Act 2000 introduced new governing structures for all local councils, clarifying responsibility for making decisions and establishing a scrutiny role. The Localism Act 2011 amended the provisions relating to Executive Arrangements and allowed local authorities to return to decision-making by committees if they so resolved.

- 3.2 Executive arrangements must include one or more overview and scrutiny committees through which non-executive councillors can question and challenge the policy and performance of the executive and promote public debate. Local authorities also have the General Power of Competence empowering them to act as an individual generally may.
- 3.3 Elected Members are collectively responsible for the governance of the council.

The full council's responsibilities include:

- agreeing the council's constitution comprising the key governance documents including the executive arrangements and making major changes to reflect best practice;
- agreeing the policy framework including the community strategy and other key strategies;
- agreeing the budget.

The executive is responsible for:

- proposing the policy framework and key strategies;
- proposing the budget;
- implementing the policy framework and key strategies.

- 3.4 The Chief Executive advises councillors on policy and necessary procedures to drive the aims and objectives of the authority. The Chief Executive is Head of Paid Service and leads a management team consisting of senior managers. The Chief Financial Officer (who is s.151 officer), Monitoring Officer and other senior managers are responsible for advising Members on all relevant issues including legislative, financial and policy considerations.
- 3.5 Sevenoaks District Council currently consists of 54 elected Members. The Council operates a Leader and Cabinet system with six Cabinet Members. Members carry their own portfolios in line with the Council's key aims. In addition there is a statutory Scrutiny Committee along with a number of statutory and regulatory committees (such as the Development Control Committee, Licensing Committee and Standards Committee). The Council's Governance Committee has terms of reference generally relating to the good governance of the Council, for example it is required to advise on amendments to the Constitution.
- 3.6 The Council has appointed an Audit Committee to discharge the functions conferred by the Accounts and Audit Regulations 2015. It is established to do this in compliance with Regulations 3 and 6 of the Accounts and Audit Regulations 2015. It has a wide auditing remit including approval of the Annual Governance Statement.

3.7 The Cabinet is advised by a number of Advisory Committees which have no executive power.

#### **4.0 The Principles of Corporate Governance**

4.1 The District Council positively recognises and accepts the following seven core principles of good governance, as identified in Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE, 2016):

- *Core principle 1 - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;*
- *Core principle 2 - Ensuring openness and comprehensive stakeholder engagement;*
- *Core principle 3 - Defining outcomes in terms of sustainable economic, social and environmental benefits;*
- *Core principle 4 - Determining the interventions necessary to optimise the achievement of the intended outcomes;*
- *Core principle 5 - Developing the entity's capacity, including the capability of its leadership and the individuals within it;*
- *Core principle 6 - Managing risks and performance through robust internal control and strong public financial management;*
- *Core principle 7 - Implementing good practices in transparency, reporting and audit to deliver effective accountability.*

4.2 The Council accepts that in order to comply with these principles, it must undertake to ensure that systems and processes are continually monitored and reviewed and are kept up to date.

4.3 The Council accepts that good corporate governance can only be achieved if effective leadership is demonstrated through the Council providing a vision for its community and leading by example in its decision making and other processes and actions. Members and Officers must at all times also conduct themselves in accordance with high standards of conduct.

#### **5.0 Corporate Plan**

5.1 The Council is determined to ensure Sevenoaks District Council is an organisation that each and every one of its residents and businesses can be proud of.

5.2 The Council's Vision is:

- To provide value for money;
- To work in partnership to keep the District of Sevenoaks safe;
- To collect rubbish efficiently and effectively;
- To protect the Green Belt; and

- To support and develop the local economy.
- 5.3 Central to the Council’s success is its belief in customer service and the empowerment of its staff. ‘The customer is anyone who isn’t me’ is everyday language and known by all of the staff.
- 5.4 The Council trusts staff to take decisions, to take informed risks and to innovate. It does not look to blame, but instead focus on what can be done differently next time. This approach has allowed the Council to reduce its budgets and workforce whilst seeing improvements in productivity, performance and satisfaction with services.
- 6.0 Openness and Reporting**
- 6.1 The Council reaffirms its commitments in the Local Code of Corporate Governance (2008) to:
- (a) Ensure that the Local Code of Corporate Governance is made available and communicated to all Members and Officers and is available for inspection by the public;
  - (b) Designate a senior Officer as responsible for overseeing, implementing, monitoring and reviewing the operation of the Local Code of Corporate Governance;
  - (c) Report annually in the Annual Governance Statement on compliance with the Code and any changes that may be necessary to maintain it and ensure its effectiveness. This will include any recommendations made by recognised external bodies such as external auditors;
  - (d) Where appropriate develop an Action Plan to identify and review areas of the Code where further work is required, and make the necessary arrangements to ensure it is undertaken.
  - (e) Provide annual statements in key corporate documents on how the Council is complying with the Code, including how it has maintained the effectiveness of its corporate governance arrangements during the year and any planned changes for the forthcoming year.
  - (f) Ensure that actions identified in any Corporate Governance Action Plan which is developed will receive full consideration within the budget setting process.
- 7.0 Commitments**
- 7.1 The Council also reaffirms its previous commitment to ensure that the principles of corporate governance will be applied in all aspects of its corporate activities and in particular:

- Sevenoaks District Council will welcome constructive challenge as an opportunity to learn and improve performance. It may come from a variety of forms - external audit, regulatory, inspection, peer review, commissioned consultants or input from other high-performing authorities;
- Sevenoaks District Council will support good practice for political parties to identify the future skills base and type of representation needed for politicians and, using appropriate selection methods, to take steps to fill these gaps when seeking candidates for election and for succession planning;
- Sevenoaks District Council will support good practice for new chief executive and leader pairings to consider how best to establish and maintain effective communication.
- Sevenoaks District Council will support good practice for Members and Officers to reject offers of hospitality, such as invitations to sporting events, from firms that the authority is contracting with, or may contract with in the future;
- Although scrutiny generally looks at issues and policies once they are in place scrutiny should also take place at the policy development stage. Sevenoaks District Council will aim to achieve this;
- Sevenoaks District Council will support good practice for political parties to appraise the performance of those that are elected and put in place training and development programmes to fill any skills gaps and also for future politicians;
- Sevenoaks District Council will support good practice for appraisals of the Chief Executive's performance to be externally validated;
- Sevenoaks District Council, as a local authority, is well placed to understand and respond to particular challenges within the local community. By bringing together key representatives from community, religious and political groups they can encourage debate on such issues as integration and policing and focus on shared values.

## **8.0 Compliance with the Principles**

- 8.1 The Council may choose to adopt and adhere to an Action Plan which sets out the extent to which the Council is complying with the principles of Good Governance and provides for areas of improvement.
- 8.2 Such a document is to be based on the principles and sub principles set out in the Framework.

This page is intentionally left blank

## COUNTER FRAUD & COMPLIANCE TEAM REPORT 2018/19

### Audit Committee - 18 July 2019

Report of Chief Finance Officer

Status: For Consideration

Key Decision: No

---

**This report supports the Key Aim of Effective Delivery of the Council Plan**

**Portfolio Holder** Cllr Matthew Dickins

**Contact Officers** Glen Moore Ext. 7471,  
Adrian Rowbotham, Ext. 7153

---

**Recommendation to Audit Committee:** That Members note the work of the Counter Fraud & Compliance Team carried out during the year ended 31 March 2019.

---

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

---

### Introduction and Background

- 1 The Counter Fraud & Compliance Team is based within the shared service Revenues & Benefits Department.
- 2 Sevenoaks District Council is committed to supporting the most vulnerable groups within the district by awarding them the discounts, exemptions, reductions and reliefs to which they are entitled.
- 3 The Counter Fraud & Compliance Team co-ordinate the Council's participation in the government led anti-fraud initiatives and creates pro-active exercises designed to protect valuable Council Tax and Business Rate revenue collection.

### Summary of Key Issues in the Report

- 4 An overall summary of the work conducted by the Counter Fraud & Compliance Team during 2018/19.
- 5 A breakdown of the successes achieved by the Counter Fraud & Compliance Team during the period April 2018 to March 2019.

## Agenda Item 8

6 A summary of future plans for 2019/20.

### **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 2018/19. Members are requested to note the report and the plans for the future.

### **Appendices**

Appendix A - Counter Fraud & Compliance Team  
End of Year Report 2018/19.

### **Background Papers:**

None.

**Adrian Rowbotham**  
**Chief Finance Officer**

## Counter Fraud & Compliance Team 2018/19 - 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 2019.

### 2. Background

The Fraud & Compliance Team has been purposely located within the Revenues & Benefit Department as the value of discounts, exemptions, reductions and allowances allowed by the varying teams within this service far exceed any of those given by any other department within the Council.

A summary of the larger allowances provided by Revenues & Benefits are as follows:

	<b>Value Allowed 2018/19 (£m)</b>
Council Tax (Single Person Discount)	<b>6.429</b>
Council Tax (Property Exemptions)	<b>2.858</b>
Council Tax (Council Tax Reduction)	<b>6.837</b>
Business Rates (Small Business Rate Relief)	<b>4.010</b>

Sevenoaks District Council is committed to supporting and assisting the most vulnerable groups within its district and further to support small businesses to grow and build a healthy and thriving local economy.

The Fraud & Compliance Team's primary role is to work closely within the Revenues and Benefits Service to ensure that the discounts, exemptions, reductions and allowances given are only awarded to those persons/businesses which are entitled to them. Further to this the team will instigate action against those deemed to have abused or not followed the correct rules within each scheme.

### 3. Successes

#### Business Rates

During 2018/19 Sevenoaks District Council issued Business Rates bills totalling over £36m. The Fraud & Compliance Team has forged even closer links with Business Rates billing officers throughout 2018/19 to fulfil the following three objectives set at the beginning of the year:

- Identifying businesses which have not registered themselves to pay Business Rates
- Identifying business premises which have changed and therefore more Business Rates should be paid
- Identifying businesses which are claiming Small Business Rate Relief, but due to their set-up should not be entitled to this relief.

The table below shows the results of work conducted by the Business Rates Team & the Fraud & Compliance Team in respect of these three key areas:

	<b>Additional Tax Charged (£) 2018/19</b>
Businesses found incorrectly claiming Small Business Rate Relief	<b>136,000</b>
Business Premises not registered for tax/found to have altered requiring an additional charge	<b>156,000</b>

### Council Tax

Section 2 of this report showed that Sevenoaks District Council allowed over £16.1m in Council Tax discounts and Council Tax exemptions during 2018/19. The Fraud & Compliance Team has put in place processes and procedures which are specifically designed to highlight incorrect claims within this area.

The team co-ordinates the authority’s annual participation in the Council Tax National Fraud Initiative which aims to highlight incorrect claims for Council Tax Single Person Discount by matching Council Tax data with Electoral Registration data.

The Fraud & Compliance Team, backed by funding from the Council Tax major preceptors, invests funds into the latest credit data matching software which allows potential false discount claims to be investigated.

The results achieved by the team last financial year are as follows:

	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	£67,382	£4,130	£8,260	£12,390	£24,780	£49,560	£99,120
Council Tax Exemptions	£30,107	£2,535	£5,070	£10,140	£20,280	£40,560	£81,120
Totals	£97,489	£6,665	£13,330	£22,530	£45,060	£90,120	£180,240

### Housing Benefit

Local authorities administer Housing Benefit on behalf of the Department for Work & Pensions (DWP), although Housing Benefit fraud is investigated by DWP fraud investigators.

On 1 February 2019 the DWP and the Council re-commenced joint working on fraud cases which allows the two bodies to investigate alleged benefit fraud offences along side Council Tax offences.

The Fraud & Compliance Team co-ordinate reviews of Housing Benefit claims in order to confirm that the correct entitlement is being awarded. This work has produced the following results:

	Value of Adjustment
£ of HB claims Removed after review	£39,167

#### 4. Cost Benefit Analysis 2018/19

The table below charts the cost of the Counter Fraud Team versus the benefits derived from the savings attained. Section 1 shows the net cost of the Sevenoaks DC related work is £40,904, Section 2 shows the Sevenoaks DC related savings and Section 3 is adjustments for uncollectable elements. In terms of Sevenoaks work there is a surplus of £14,345 and in terms of the overall work of the team, the surplus is £19,129.

	Total £	SDC Element £	
<b>Section 1 Expenditure</b>			
Gross Expenditure - Partnership with DBC	206,140	103,070	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	81,808	40,904	
<b>Section 2 Fraud discovered (SDC):</b>			
Council Tax Discounts/Council Tax Reductions	(67,382)	(8,086)	SDC receive 12%
Council Tax Exemptions	(30,107)	(3,613)	SDC receive 12%
Housing Benefit Overpayments	(39,167)	(15,667)	SDC receive additional subsidy of 40% of overpayments discovered
Small Business Rate Relief (SBRR) Investigations	(69,519)	(27,808)	SDC receive 40%
<b>Section 3 Adjustments (SDC):</b>			
Future savings/Deterrent Factor		(5,407)	Assume a 26-week future benefit element of which SDC receives 12%. See (a) below.
Uncollected Estimate (HB)		4,700	Assume 30%. See (b) below.
Uncollected estimate (Council Tax)		171	Assume 1.46% as Council Tax collection rate is 98.54%
Uncollected estimate (Business Rates)		461	Assume 1.74% as Council Tax collection rate is 98.26%
Net Position (Surplus/Deficit)		(14,345)	

- (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, 1.46% in Council Tax and 1.74% in Business Rates related savings.

## **5. Future Developments**

Sevenoaks District Council is part of the Kent Intelligence Network (KIN). KIN drives anti-fraud initiatives across the Kent local authorities. In 2019/20 Sevenoaks District Council will be working closely with KIN on the following initiatives:

- Finding properties not registered to pay Council Tax
- Business Premises not registered to pay Business Rates
- Data-matching exercises to highlight false claims for Council Tax discounts & exemptions and Business Rates reliefs.

This page is intentionally left blank

**INTERNAL AUDIT ANNUAL OPINION 2018-19**

**Audit Committee - 18 July 2019**

Report of	Audit Manager
Status	For Consideration
Key Decision	No

---

**Executive Summary:** The report sets out the Internal Audit Annual Opinion on the effectiveness of the Council’s internal control, governance and risk management arrangements. The Opinion, is a requirement of [Public Sector Internal Audit Standards](#), and includes a summary of the work taking into consideration when forming the Opinion.

---

<b>Portfolio Holder</b>	Cllr Matthew Dickins
<b>Contact Officers</b>	Russell Heppleston, Ext. 7053 Adrian Rowbotham, Ext. 7153

---

**Recommendation to Audit Committee:** That Members note the Internal Audit Annual Opinion (appendix A)

---

**Reason for recommendation:** In accordance with professional standards (Public Sector Internal Audit Standards) the Chief Audit Executive (a role fulfilled by the Audit Manager at Sevenoaks) must deliver an overall Opinion to conclude on the effectiveness of the Council’s internal control, governance and risk management. The Opinion is used to inform the Annual Governance Statement which in turn supports the Financial Statements.

---

# Agenda Item 9

## Introduction and Background

- 1 The Opinion is mandated through the Standards, specifically Standard 2450 which sets out what the Opinion must include and take into consideration:

### 2450 Overall Opinions

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

#### *Interpretation:*

The communication will include:

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

The reasons for an unfavourable overall opinion must be stated.

### Public sector requirement

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

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

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

- 2 The Audit Committee is required through its Terms of Reference to consider the Opinion each year, and to maintain oversight of the Internal Audit service and the work undertaken to support the overall Opinion.

## Key Implications

### Financial

As this report is for noting, there are no direct financial implications.

### Legal Implications and Risk Assessment Statement

We present this report for noting only and so it has no direct legal or risk management 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.

## Conclusions

The Opinion is a conclusion on the effectiveness of the Council's internal control, governance and risk management arrangements as requirement through professional standards. Members are asked to note the overall Opinion.

**Appendices**

Appendix A - Internal Audit Annual Opinion  
(2018/19)

**Background Papers**

None.

**Adrian Rowbotham**  
**Chief Finance Officer**

This page is intentionally left blank

**DARTFORD & SEVENOAKS AUDIT PARTNERSHIP**

# **Internal Audit Annual Opinion 2018-19**

**July 2019**



## Introduction

All Local Authorities must make proper provision for internal audit in line with the [Local Audit and Accountability Act 2014](#) and the [Accounts and Audit Regulations 2015](#). The Regulations state that services must follow the [Public Sector Internal Audit Standards](#) - a consolidated approach to internal auditing standards across the whole of Public Sector.

Internal Audit is a vital component to the Council's effective running. We provide assurance, advice and insight to help protect and enhance internal control, governance and risk management arrangements. The service has a wider role to be the Council's 'critical friend', with the ability to confidently challenge current practice, champion best practice and support management to improve how the Council operates. This is achieved through the provision of combined assurance and consulting activities, as set out in the mandated definition within the Standards:

***'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'***

The Standards require that the Chief Audit Executive (the Audit Manager fulfils this role for the Council) to issue an annual Opinion. The Opinion is a conclusion on the effectiveness of the Council's **internal control, corporate governance and risk management** arrangements. It is a key part of the overall assurance that Members and Officers of the Council draw on when evaluating governance.

The extract below shows the expectations for the annual Opinion as set out in the Standards:

### 2450 Overall Opinions

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

#### Interpretation:

The communication will include:

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

The reasons for an unfavourable overall opinion must be stated.

### Public sector requirement

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

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

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

## Scope

The Audit Committee approved the [Internal Audit Charter](#) in March 2019. The Charter sets out the scope of our work, and includes the parameters and safeguards in place for us to undertake assurance, advisory and consultative work.

Evidence to support the Opinion is principally obtained through completing the work as set out in our [audit plan](#), in addition to the insight, knowledge and intelligence gained over the course of the year. There are three areas within the scope for the Opinion, these are:

**Internal control:** How the Council ensures achievement of its objectives. In particular, the effectiveness and efficiency, reliability of financial reporting and compliance with law, rules and policies.

**Governance:** The system of rules, practices and processes by which the Council is directed and controlled

**Risk Management:** How the Council identifies, evaluates and responds to risks facing the achievement of objectives

The Opinion relates to 2018/19 financial year.

## Limitations

In April 2018 the Audit Committee approved the audit plan setting out the key areas of audit focus for the year. While the plan remains flexible to react to emerging risks or issues throughout the year, in approving the Audit Plan the Audit Committee recognise that it is not possible for our plan to address **all** risks facing the Council.

The Opinion can therefore only give *reasonable assurance* that the systems of internal control, governance and risk management are effective.

There are however, no specific limitations to the scope of the Opinion for 2018/19.

## Independence

In addition to setting out the role, authority and responsibility of Internal Audit, our Charter also defines the safeguards in place for our independence.

At no point during the year have Officers or Members sought to impede, influence or edit the outcomes of our work, our findings or our overall conclusions. I can therefore confirm that we have worked with full independence during the year.

## Summary of information that supports the Opinion

Details of the work conducted to inform the Opinion are set out in the remainder of this report, including; use of audit resources, summaries of audit work issued, governance and risk management, client satisfaction and service performance.

## The Opinion

It is my opinion, in the capacity as Chief Audit Executive for Sevenoaks District Council, that for 2018/19 the Council has operated and maintained a **SOUND** system of internal control, governance and risk management.

*Russell Heppleston* (QIAL CMIIA)

Audit Manager (Chief Audit Executive)

30 June 2019

## Delivery of the 2018/19 Audit Plan

The Audit Committee approved our audit plan 2018/19 in **April 2018**. The plan set out a summary of the audit projects to be delivered, along with a resource plan showing the total number of days allocated to the plan.

We began work on the plan in May 2018, following completion of the remaining 2017/18 audit work.

We use a time recording system called Teammate to log all time spent on the different audit related tasks throughout the year. This system enables us to capture time spent delivering different activities and individual audit projects.

The table below shows how we have utilised audit days up to 31 March 2019:

Category	2018/19 Plan Days	Outturn to 31 March 2019	Days Remaining
2017/18 Assurance Projects	0	0	0
2018/19 Assurance Projects	256	204 (+39 between Feb-Mar)	52
Contingency and Consultancy Reported as: <i>General administration/Committee reporting/service development/Audit Planning/risk management/joint working</i>	156	165 (+18 between Feb-Mar)	-9
<b>Totals (18/19 Work Only)</b>	<b>412</b>	<b>369</b>	<b>43</b>

Based on the figures above, we are slightly under on our audit days up to 31 March 19, however, as we rolled some projects forward, this was to be expected. Based on the projects that were awaiting completion at the end of the year, we are satisfied that this has not adversely impacted on our ability to draw a conclusion for the Opinion.

## Agenda Item 9

### Audit Work

The table below shows our overall progress towards delivery of the 2018/19 audit plan. As we deliver this work we assess and conclude on the overall level of assurance offered by the controls in accordance with the agreed definitions (see appendix I).

### Audit projects completed

Sevenoaks Audit Plan 2018/19				
No	Title	Budget	Date Issued	Conclusion
<b>2017/18 Carry Forward</b>				
-	Key Financial Systems		April 2018	Limited
-	Vehicle Procurement		April 2018	Full
-	Print Studio		April 2018	Limited
-	Corporate Health & Safety		April 2018	Full
-	Quercus 7		April 2018	Substantial
<b>2018/19 Audit Work Completed so far</b>				
1	SDC7-18/19 Public Health	10	July 18	Full
2	<b>ADDED</b> Housing Register	5	August 18	n/a
3	SDC9-18/19 Fly-Tipping	5	September	Full
4	SDC11 - Environmental Health (Food Safety) <b>SHARED</b>	10*	November 18	Substantial
5	SDC8-18/19 Community Safety	5	November 18	Full
6	SDC1-18/19 Community Infrastructure Levy	5	December 18	Substantial
7	<b>ADDED</b> PayPal – Data Analysis	10	December 18	n/a
8	SDC5-DBC4-18/19 Council Tax Systems Mapping - <b>SHARED</b>	20*	February 19	Full
9	SDC6-DBC5-18/19 Business Rates Systems Mapping - <b>SHARED</b>	10*	April 19	Full
10	SDC10-18/19 Markets	13	April 19	Substantial
11	SDC13-18/19 Payroll	10	May 19	Full
12	ICT Audit Needs Assessment	5	May 19	N/A
13	SDC4-18/19 – Accounts Receivable Systems Mapping	10	June 19	Substantial
14	SDC14-18/19 GDPR	7.5	June 19	Substantial

\*Days shared with Dartford

**Audit projects awaiting completion**

We had anticipated finishing all of the fieldwork for our projects by the end of May 2019, however, this has slipped slightly following our work to restructure the service. This being said, we have only 1 project where substantive testing is still being undertaken, with the remaining projects being in feedback / draft report:

Sevenoaks Audit Plan 2018/19				
No	Title	Budget	Expected	Progress
15	SDC12-18/19 Business Continuity	10	March 19	Feedback
16	SDC2-18/19 Private Sector Letting Scheme	10	March 19	Feedback
17	SDC3-18/19 Homelessness Reduction Act	10*	April 19	Fieldwork

\*Days shared with Dartford

## Audit Work Summaries

We issue a full report for all of the work completed on the audit plan. Members have requested to see executive summaries of all of the work issued in final. We revised and updated our audit reports from December 2018, and so the summaries below include our new and old style of reporting audit recommendations and actions (see Appendix I).

### Key Financial Systems – Issued in April 2018

The purpose of this review was to provide an assurance regarding the effectiveness of the Council’s Key Financial Systems with regard to the accuracy and completeness of transactions and compliance with Council policy and to ensure that these arrangements are fit for purpose to deliver service objectives and comply with Council procedures.

The opinion of the auditor was that there is **Limited Assurance** in place to ensure achievement of service objectives pertaining to the audited system. This meant there were weaknesses identified within the framework and there existed evidence of non-compliance with Council procedures or good practice, which put the achievement of the Council’s or service objectives, in many of the areas reviewed, at risk.

Audit recommendations were made to improve the following areas where our testing identified issues:

1. Non-compliance with the Financial Procedure Rules
2. Potential lack of separation of duties
3. The maximisation of opportunities to achieve or demonstrate efficiency or value for money
4. The compliance of creditor and credit card transactions with Financial Procedure Rules and good practice. It was also noted that the corporate credit card procedures were not included in the Financial Procedure Rules.

Priority Ranking	Number of recommendations
Critical	0
High	1
Medium	1
Low	3
Advisory	0
<b>Total</b>	<b>5</b>

*All 5 actions were implemented or closed during the year, and progress has been reported to Members as part of our regular reporting. Most recently in July 2019, which includes reference to our revised approach to financial systems audits.*

### Vehicle Procurement – Issued in April 2018

The purpose of this review was to provide an assurance regarding the effectiveness of the processes and the financial strategy used to procure vehicles for the Depot to ensure adequacy and fitness for purpose to deliver service objectives and comply with council procedures.

The opinion of the auditor was that there is **Full Assurance** in place to ensure achievement of service objectives pertaining to the audited system. 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.

There were no recommendations arising from this review.

### Print Studio – Issued in April 2018

The purpose of this audit was to look at the processes in place for income collection from internal and external customers to ensure they are fit for purpose and follow Council procedures.

The opinion of the auditor is that there is **Limited Assurance** in place to ensure achievement of service objectives pertaining to the audited system. This means there are weaknesses identified within the framework and there exists 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.

Audit recommendations were made to improve the following areas where our testing identified issues:

1. Raising of invoices for ad-hoc work requested by members of staff
2. Raising of sales orders/ invoices to external customers
3. Invoice generation/costing process
4. Purchased of a piece of software that is not being used that could help the print studio to become more efficient

Priority Ranking	Number of recommendations
Critical	0
High	1
Medium	2
Low	0
Advisory	0
<b>Total</b>	<b>3</b>

*Progress has been made to address all of the actions identified in the review, however, until our testing can be re-performed we continue to keep these actions open and are actively following up progress. An update from the Manager is included in our progress report for July 2019.*

### Corporate Health & Safety – Issued in April 2018

The purpose of this audit was to provide reasonable assurance regarding the effectiveness of the arrangements in place for Corporate Health and Safety in order to ascertain compliance with Council policy and Health and Safety legislation, regulation and guidance.

The opinion of the auditor was that there is **Full Assurance** in place to ensure achievement of service objectives. We found that the Council has sound corporate arrangements in place to support the Council’s compliance with legislation and regulations. The main control is the establishment of the corporate H&S group, who’s terms of reference include the review of H&S related policies and procedures; review trends in types of accidents/incidents with designed strategies to reduce the seriousness and impact of these instances in the future. This group is an invaluable resource that supports services in their own H&S risk assessment. Members of the group participate in other Kent wide network, which has resulted in shared experiences/knowledge and lesson learnt to inform the Council’s own H&S processes. The use of a standard approach for service H&S risk assessment facilitates a consistent approach across the Council.

There were no recommendations arising from this review.

### Quercus 7 – Issued in May 2018

The purpose of this review was to provide assurance on the relationship between Quercus 7 Limited (Q7) and Sevenoaks District Council (SDC), with particular focus on potential conflicts of interest between the two entities and the use of Council resources to support Council initiatives. This review was also to ensure that arrangements are fit for purpose to deliver service objectives and compliance with Council procedures.

The opinion of the auditor was that there is **Substantial Assurance** in place to ensure achievement of service objectives pertaining to the audited system. This meant there is generally a sound framework of control in place designed to meet the Council has 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.

Priority Ranking	Number of recommendations
Critical	0
High	0
Medium	1
Low	2
Advisory	0
<b>Total</b>	<b>3</b>

### Public Health – Issued in July 2018

The purpose of the review was to evaluate the Council’s contribution to the One You Kent programme funded by Kent County Council (KCC), which aims to support the health and wellbeing of residents in the County and how we tailor our services to support needs within our district.

The opinion of the auditor is that there is **Full Assurance** in place to ensure achievement of service objectives pertaining to the audited system. This means 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.

There were no recommendations arising from this review. We have set aside 2 days to review the delivery of outcomes towards the end of the year.

### Fly-tipping – Issued in September 2018

The purpose of this audit review was to provide assurance over the effectiveness of the processes in place to report and investigate instances of fly tipping in the Sevenoaks District.

It is our opinion, based on the results of our work, that there is **Full Assurance** in place to ensure achievement of service objectives and management of key risks. This means there is a sound framework of control is in place that meets the Council aims and or service objectives. All expected controls tested are in place and are operating effectively.

Priority Ranking	Number of recommendations
Critical	0
High	0
Medium	0
Low	2
Advisory	0
<b>Total</b>	<b>2</b>

### Housing Register – Issued in august 2018 (Additional Work - not rated)

The purpose of this review is to assess the possibility of maintaining the Housing Register arrangements in house using existing Sevenoaks District Council (SDC) resources. Currently SDC pay £50,000 per annum plus a further £30,000 from Section 106 funds to West Kent Housing Association (WKHA) for maintaining the SDC Housing Register and providing administration of the Choice Based Letting Scheme. This current arrangement is for a 3-year period and is due to end in March 2019.

### Shared Environmental Health: Food Safety – Issued in November 2018

The purpose of this audit review was to provide independent assurance on how new technology is being used to make the process for food safety inspections more efficient. This is in response to the significant increase in the number of new food business registrations received across the Partnership localities over the last six years.

It is our opinion based on the results of our work that there is **Substantial Assurance** in place to ensure that the service is working in compliance with the relevant legislation and in accordance with agreed procedures. This means there is generally a sound framework of control in place designed to meet the Council's service objectives. However, there are isolated weaknesses in design of controls or inconsistent application of controls, which put the achievement of a limited number of objectives at risk.

Our testing confirms that the service is operating the new software to undertake inspections and that those inspections are, conducted in accordance with legislation and the food standard agency requirements. However, there is a significant backlog of initial inspections for new premises, which needs to be addressed. We raised 3 recommendations in this review, of the following priority ratings:

Priority Ranking	Number of recommendations
Critical	0
High	0
Medium	1
Low	2
Advisory	0
Total	3

### Community Safety – Issued in November 2018

The purpose of this audit review was to provide independent assurance over the effectiveness of the data sharing arrangements within the Community Safety service. The review focussed on testing compliance with the General Data Protection Regulations (GDPR) and the Data Protection Act 2018 (DPA 2018).

It is our opinion, based on the results of our work, that the controls in place provide **Full Assurance**. This means there is a sound framework of control in place, and that the expected controls tested are operating effectively.

We conclude as a result of our testing, that there are adequate provisions within the Kent and Medway Data Sharing Agreement to enable compliance with GDPR and Data Protection legislation. We raised no recommendations or actions in this review.

### PayPal: Data Analysis – Issued in December 2019

We were asked to collate and analyse transaction and usage data since the implementation of PayPal to support the post-implementation review of the project. The purpose of our work was to determine if value for money is being provided by the system. The outcomes of our analysis will be used to assist decision making over the longer term plan to use PayPal.

The scope of this work included:

- a. To document, by way of a flowchart, the current processes and controls in place for the services that offer PayPal as a payment method
- b. To collate activity data (including which areas have most take up)
- c. To establish and calculate current transactions costs charged by PayPal relative to usage
- d. To calculate the current cost (by way of resource and time) to the Council for PayPal transactions
- e. To establish PayPal usage at other local authorities
- f. To analyse data collated and report findings

As this work was undertaken as consultancy, no assurance rating was issued and we did not make any recommendations.

### Community Infrastructure Levy (CIL) – Issued in December 2018

The purpose of this audit review was to provide independent assurance over the effectiveness of the controls for the implementation and administration of the Community Infrastructure Levy (CIL).

Following the completion of our fieldwork, and subsequent feedback with Officers, we conclude that there is a sound framework in place to administer the CIL scheme. Liabilities are calculated in accordance with the agreed fees, and applied in compliance with the parameters of the scheme. Funds are allocated with full regard to the agreed infrastructure headings through the CIL Spending Board. Our testing identified some areas for improvement. Firstly to bring Officer Delegations (for CIL exemptions) up to date. Secondly, to review and clarify the pre-requisite for Member Support as part of the Spending Board decision making.

It is our opinion, based on the results of our work, that the controls in place provide **Substantial Assurance**. We raised 2 actions which are summarised below:

Priority Ranking	Number of recommendations
Critical	0
High	0
Medium	2
Low	0
Advisory	0
<b>Total</b>	<b>2</b>

### **Shared – Council Tax Systems Mapping – Issued in February 2019**

We conclude based on our audit work that the controls in place over the Council Tax system provide **FULL** assurance.

Dartford (DBC) and Sevenoaks (SDC) collect in the region of £150m of Council Tax (CT) each year. The vast majority of the funds collected are distributed onwards to the precepting bodies, including Kent County Council and Kent Police and Crime Commissioner and Kent & Medway Fire & Rescue Service.

This review provides independent assurance over the adequacy of controls for the Council Tax process. We mapped the system from billing through to recovery and identified the key controls and risks. Our testing of the key controls confirms that the system is effective in **design** and **operation**. We identified no errors in our key controls testing.

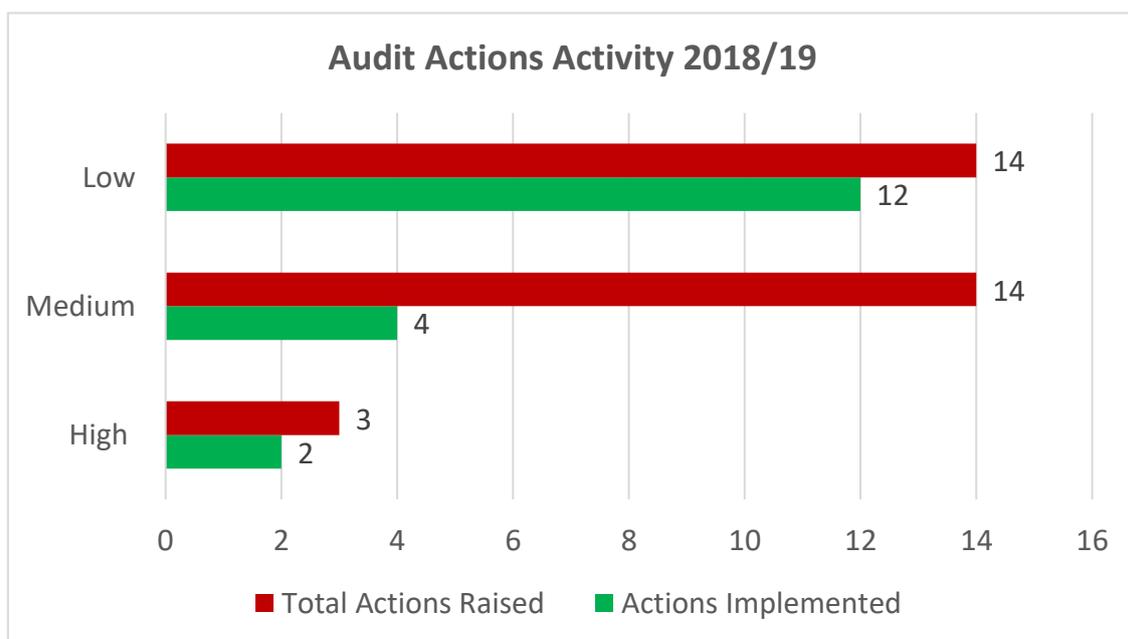
## Audit Actions

We raise actions from our work to assist management in addressing control failings, or to suggest service improvements. In December we launched a new follow-up process using our audit management software, Teammate. We now track and **all** audit actions when they fall due. The table below summarises the annual follow-up activity, including progress against implementation:

	Total	High Priority	Medium Priority	Low Priority
<b>Audit actions brought forward from 2017/18</b>	13	2	4	7
2017/18 Actions implemented since 01/04/18	10	1	2	7
<b>2017/18 Actions remaining</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>0</b>
<b>Audit actions raised in 2018/19</b>	17	0	10	7
Implemented since 01/04/18	7	0	2	5
Deferred or Not Yet Due	10	0	8	2
<b>2018/19 Actions remaining</b>	<b>10</b>	<b>0</b>	<b>8</b>	<b>2</b>
<b>Total actions live</b>	<b>13</b>	<b>1</b>	<b>10</b>	<b>2</b>

We raised **0** high priority actions in 2018/19, and of those carried forward from 2017/18, one is still awaiting full implementation. Based on the results of our current follow-up work, there are **13** actions that are ‘live’ and which we are monitoring. We will report progress on the implementation of these actions as they fall due.

We have continued to see positive engagement and commitment from Management to implement agreed actions identified from our work:



We have reported details of our follow-up work regularly to Members as part of our progress reports, and Members have actively shown interest and support in the process.

## Client Satisfaction

We issue a client survey each time that we complete a piece of audit work. Feedback is important, as it helps us to shape the future of the service – to protect areas of good practice, and to address areas where we need to improve.

We received 18 responses in 2018/19.

The illustration below shows the questions that we asked, and the number of positive responses (strongly agree / agree) received, out of the 18 completed client satisfaction surveys:

### CLIENT FEEDBACK 2018/19



We received positive feedback throughout the year, and we have continued to enjoy support from across the Council for the work we undertake.

## Client Feedback 2019/20

We have redesigned our client survey for the coming year, and have incorporated a 360 degree style approach to feedback. Feedback will follow 5 key themes, and we have developed an electronic survey to increase efficiency and to make completion more user friendly.

For 2019/20 we will be measuring feedback against the following areas:

### Audit Brief & Scope

Did you feel involved in the planning and scoping of the audit?

Did you feel the audit covered the right areas?

### Audit Fieldwork

We kept you informed and updated throughout the audit

We were sensitive to your availability & workload

### Skills & Knowledge

Did we demonstrate sufficient knowledge of the audit area

Did we conduct the audit in a professional and courteous manner?

### Outcomes

Our report was... [select from]

Do you believe the agreed actions will make a difference?

### Reflection

How would you rate your overall audit experience

Could we have done anything better to improve your overall audit experience

## Agenda Item 9

### Governance

Corporate governance comprises the rules, practices and processes that direct and control the Council, it underpins everything we do, and includes:

- Systems
- Processes & Procedures
- Rules & Laws
- Management & Leadership
- Decision Making

We gain evidence of the effectiveness of the Council's governance through completion of our governance related audits on the audit plan (such as GDPR), and also the work we undertake in an advisory or consultative capacity. This work includes:

- **Counter Fraud:** We consider the risk of fraud in all of our regular audit projects, and our audit universe includes relevant policies and procedures aimed at preventing, detecting or tackling fraud (such as Officer Declarations, Gifts and Hospitality, and Expenses). We will be considering more proactive efforts as part of the 2019/20 audit plan.
- **Whistleblowing (speaking-up):** The Committee reviewed and adopted the most recent policy in March / April 2017. The Audit Manager is a named officer in the policy, along with Senior Officers and the Chair of the Audit Committee. We received no official disclosures through the policy in 2018/19.
- **Ad-hoc advice & Consultancy:** The Council has a number of working groups, and we sit, in an advisory capacity, on some in order to provide insight and a view from the risk and control perspective. Such groups include Safeguarding, Project Steering Group and Customer Re-design. In addition, contingency days built into the audit plan can be called upon to deliver special projects. Examples for Sevenoaks include the Housing Register and PayPal projects.

The Council has a **Local Code of Corporate Governance**. The Code sets out the principles of corporate governance and how they apply to operation and conduct of the Council. The Code has been developed in accordance with the principles outlined in the framework and guidance notes from CIPFA/SOLACE "**Delivering Good Governance in Local Government (2016)**".

This Framework is what all Local Authorities must comply with, not only as a means of demonstrating good governance, but also by preparing an Annual Governance Statement to accompany the Statement of Accounts. A proportion of our audit plan is designed to give assurance of the governance arrangements for the Council. We have raised no high priority findings during our work in 2018/19 with regards to governance.

## Risk Management

Risk management is a vital element of corporate governance. It is important for the Council to not only be aware of key risks, but to also have processes in place to ensure that those risks are managed well, and where possible, impact is minimised.

Our audit work takes into account strategic and operational risk management, and our testing considers the effectiveness of the controls in place to manage those risks to acceptable levels. We also have a co-ordination role with regards to the risk management strategy, and will provide support, guidance and training across the Council to help improve our risk management arrangements.

In summary, the risk management process for the Council takes into account the following 5 stages:



The Council has a **Risk Management Group**, it is Chaired and co-ordinated by the Audit Manager, and is in place to ensure that the Council develops and maintains an effective risk management process and that significant and emerging risk issues are captured and managed to an acceptable level. The Group comprises a cross-section of Managers from key service areas, and they all advocate and champion risk across the Council. The Group is working on developing and refreshing the risk management strategy and we will continue to offer advice and support to the Group as this work progresses throughout 2019/20.

We gain assurance over the effectiveness of the risk management process through our audit work, operational risk management and also strategic level risk. Strategic risks are owned by Strategic Management Team and are regularly reviewed, updated and reported. In addition, the strategic risk register is reported to Audit Committee annually (most recently in **October 2018**).

Our audit work did not identify any individual high risk issues in 2018/19, and so we consider them to be generally sound.

## Quality Improvement & Service Performance

In August 2018 Dartford and Sevenoaks entered into a secondment with Mid Kent Audit to provide Audit Management (Chief Audit Executive) support for 6 months. This was extended to cover **01/04/2019 to 31/03/2020**. Since August, we have undertaken a number of key service improvements to drive quality, increase efficiency, and to address the outstanding findings from the External Quality Assessment follow-up (reported to Audit Committee in **July 2018**). Key activities completed over the course of the year include: complete redesign of our audit manual and process, refreshed reporting to management and Members, increased engagement and communication of the Audit service, implementation of risk-based audit planning, action tracking and greater utilisation of technology (Teammate Audit Software).

Professional Standards require us to have a clear quality assurance and improvement programme (QAIP) in place to ensure the continued development of the service. Our existing programme is made up of both external and internal review processes as set out below:



## Performance

Following our work to refresh the audit approach in November 2018, we took the opportunity to also re-align our service indicators. These new measures have been developed not only to measure performance, but also to monitor quality improvement, compliance with Standards, and training & development. These were implemented across the Partnership in December 2018. The figures reported below represent the Partnership as a whole, for the period of January to March 2019:

Finance: Associated performance indicators	Up to March 19	Internal processes: Associated performance indicators	Up to March 19
<b>F1: Projects Completed within budgeted days</b> <i>Indicator measures any variance between the days agreed on the final brief vs. the actual time coded on Teammate TEC</i>	4 / 5 80%	<b>I1: Time taken between issue of the DRAFT and FINAL Audit Brief</b> <i>Indicator measures the effectiveness of our project planning and time taken to prepare the work programme</i>	20 days (average)
<b>F2: Chargeable days (time)</b> <i>Indicator measures the actual chargeable activities against the assumptions made in the audit plan</i>	87%	<b>I2: Time taken between the issue of the FEEDBACK and DRAFT report</b> <i>Indicator measures the currency of our audit finding and effective engagement between Auditors and Clients</i>	11 days (average)
<b>F3: PSIAS conformance</b> <i>Indicator measures effectiveness of the Quality Assurance &amp; Improvement Programme (QAIP) to ensure compliance with professional Standards.</i>	53 / 56 95%	<b>I3: Time taken between issue of the DRAFT report and FINAL report</b> <i>Indicator measures the effectiveness of our process to finalise audit reports and issue the report in a timely manner</i>	17 days (average)
Client satisfaction: Associated performance indicators	Up to March 19	Learning & Development: Associated performance indicators	Up to March 19
<b>C1: Respondents satisfied with the conduct of the Auditor</b> <i>Indicator measures Client satisfaction with how we undertook the work, and takes into account our professionalism, approach and competence</i>	100%	<b>L1: Audit actions fully implemented within agreed timescales</b> <i>Indicator measures the successful implementation of audit actions and the effectiveness of our follow-up process</i>	SDC: 16/17 94% DBC: 8/9 89%
<b>C2: Respondents agreement with the audit actions</b> <i>Indicator measures Client agreement to the audit findings and resulting actions from our audit work</i>	100%	<b>L2: Training &amp; development days</b> <i>Indicator measures our investment and time spent on training and development against the assumptions made in the audit plan</i>	25.49 Days

## Indicator Notes

**F3:** The next External Quality Assessment (EQA) is due in 2020. A self-assessment will be conducted in summer 2019 to review compliance against the outstanding areas of compliance. The outcomes will be used to inform the improvement plan for rest of the year and will be reported to Audit Board in October 2019.

**I1 – I3:** These new indicators measure key milestones in the audit process. They will be monitored over the course of the coming year to help measure efficiency, as this is a monitoring indicator we have not set a target yet.

**L2:** We have supported one member of the team to begin professional audit qualifications through the Institute of Internal Auditors (IIA). We also continue to support the professional development of the team, such as attendance at professional conferences, payment of professional fees and soft-skills training.

Overall for the year, the team has performed well. A significant amount of work has been completed over the last 6 months, and there has been a marginal impact on our ability to deliver the 2018/19 audit plan. This is a positive outcome, and has been possible through the support provided by the Council and Members throughout the year.

## Acknowledgements

It has been a significant year for the Audit Partnership, with the later part of the year being a period of change, re-design and a drive to enhance our service. Despite this change, the team have worked hard to ensure that we have continue to deliver our plan, to engage positively, and embrace new ways of working. I would therefore like to take this opportunity to extend my public thanks to the hard work and resilience demonstrated by the team this year.

I would also like to thank Officers, Managers and Members for their continued support as we have undertaken our work. In particular, the Audit Committee whose oversight, assistance and challenge has enabled us to make significant progress in shaping the future of the Partnership.

Appendix I

Definitions of Assurance ratings:

OPINION	DEFINITIONS
<p><b>Full Assurance</b></p> <p>(no High or Medium priority actions)</p>	<p>A sound framework of control is in place that meets Council or service objectives. All expected controls tested are in place and are operating effectively.</p> <p>A review with this level of assurance will generally have no actions, or very few <b>LOW</b> priority actions. Agreed actions will be followed up as they fall due.</p>
<p><b>Substantial Assurance</b></p> <p>(no High priority actions)</p>	<p>There is generally a sound framework of control in place that meets Council 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>A review of this level of assurance may raise a number of <b>MEDIUM</b> priority actions. Agreed actions will be followed up as they fall due.</p>
<p><b>Limited Assurance</b></p>	<p>There are weaknesses within the framework of control or 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>A review with this level of assurance will raise one or more <b>HIGH</b> priority actions. Actions with a high priority should be acted on as soon as practical and will be followed up as soon as they fall due.</p>
<p><b>No Assurance</b></p>	<p>Key controls are absent from the framework of control. There are fundamental weaknesses identified with both the design and operation of the system under review. As a result, it is unlikely that Council or service objectives will be achieved.</p> <p>A review of this level may include a number of <b>HIGH</b> or <b>CRITICAL</b> priority actions. Actions of a critical level will be reported as soon as they are identified and escalated to the relevant Senior Manager. Actions to address the findings will be followed up as soon as they fall due.</p>

## Audit Findings Priority Ratings

Priority	Definition
<p style="text-align: center;"><b>Critical</b></p>	<p>Control weakness that could have a significant impact upon not only the system, function or process objectives, but also the achievement of the organisation’s objectives in relation to:</p> <ul style="list-style-type: none"> <li>• the efficient and effective use of resources</li> <li>• the safeguarding of assets</li> <li>• the preparation of reliable financial and operational information</li> <li>• compliance with laws and regulations</li> </ul>
<p style="text-align: center;"><b>High</b></p>	<p>Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organizational objectives.</p>
<p style="text-align: center;"><b>Medium</b></p>	<p>Control weakness that has a low impact on the achievement of the key system, function or process objectives; or This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.</p>
<p style="text-align: center;"><b>Low</b></p>	<p>Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.</p>
<p style="text-align: center;"><b>Advisory</b></p>	<p>Observations and areas for consideration, these findings are drawn from our shared experience of working across the Council and more widely with partners. These findings require no formal response and will not be followed up.</p>

**INTERNAL AUDIT UPDATE REPORT (July 2019)**

**Audit Committee - 18 July 2019**

Report of	Audit Manager
Status	For Consideration
Key Decision	No

**Executive Summary:** The report provides Members of the Audit Committee with an update on the Audit Partnership, including Internal Audit activity, service developments and progress towards delivery of the 2019/20 Audit Plan.

<b>Portfolio Holder</b>	Cllr Matthew Dickins
<b>Contact Officer</b>	Russell Heppleston, Ext. 7053 Adrian Rowbotham, Ext. 7153

**Recommendation to Audit Committee:** That the Internal Audit Update Report (appendix A) is noted

**Reason for recommendation:** Reporting the outcomes of the internal audit service is a requirement under the Public Sector Internal Audit Standards. As those charged with governance, the Audit Board is required through its Terms of Reference to provide oversight, support and challenge to gain assurance over the effectiveness of internal control, risk management and governance.

**Introduction and Background**

- 1 The Audit Committee receives regular updates from the Internal Audit partnership. Principally the focus on these updates is to track progress, findings, and key insights from delivery of the Internal Audit Plan. The Committee provide a key oversight role, and as those charged with governance, must be satisfied that the Council is operating effective internal control, risk and governance processes.
- 2 Following the appointment of the Interim Audit Manager (Chief Audit Executive) in August 2018, the Audit Board has also been kept abreast of service developments, improvements, and plans to maximise the value provided through the Partnership.

## Agenda Item 10

### **Key Implications**

#### Financial

The Internal Audit Partnership is responsible for delivering the audit service. Delivery of the plan is already approved within the Council's budget and so requires no new funding to be delivered.

#### Legal Implications and Risk Assessment Statement

There are no legal implications associated with this decision.

We present this report for information only and so it has no direct risk management 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.

### **Conclusions**

This report provides Members with an update on the Audit Partnership, including Internal Audit activity, service developments and progress towards delivery of the 2019/20 Audit Plan.

#### **Appendices**

Appendix A - Internal Audit Update Report (July 2019)

#### **Background Papers**

The previous update was reported to the Audit Committee in March 2019 and is publically available on the Council's [website](#).

**Adrian Rowbotham**  
**Chief Finance Officer**

**DARTFORD & SEVENOAKS AUDIT PARTNERSHIP**

# **Internal Audit Update Report**

**July 2019**



## Introduction

Internal Audit is an independent and objective assurance function. For Sevenoaks, the internal audit function is provided through the Audit Partnership with Sevenoaks District Council. The shared team undertake assurance and consultancy work over the course of the year, designed to evaluate and improve the Council's internal control, governance and risk management processes.

All Local Authorities must make proper provision for internal audit in line with the [Local Audit and Accountability Act 2014](#) and the [Accounts and Audit Regulations 2015](#) (regulation 5). The latter requires authorities to:

***“...undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”***

The Regulations state that internal audit services must follow the [Public Sector Internal Audit Standards](#). These standards are a consolidated approach to internal auditing across the whole of public sector, and they part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which is applicable to all UK Local Authorities:



The Standards set out a shared mission for all internal audit functions: ***to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.*** We achieve this by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance for the Council.

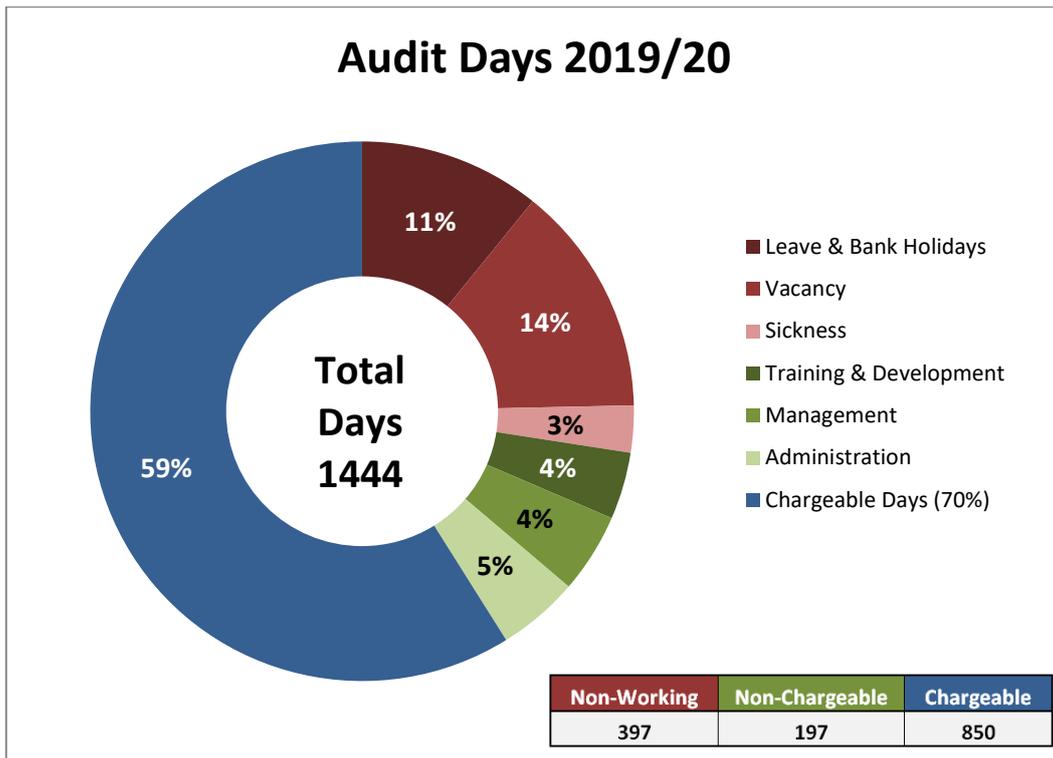
This report provides Members with an update on Internal Audit activity, in addition, to setting out current progress as we complete our 2019/20 Audit Plan approved by the Audit Committee in [March 2019](#).

As this is the first update for 2019/20, we have taken the opportunity to set out details about how we undertake our audit work, including how we plan, report and follow-up our findings.

## Audit Plan 19/20

The Audit Partnership is governed by the principle that resources are split 50/50 across both Partners. Therefore, to calculate the total amount of resources available to each Partner, we take the total available days for the year, and subtract various categories of non-working and non-audit time. The remaining total is split 50/50 to give us a total number of days for the Audit Plan.

The illustration below shows how we calculated the total number of audit days available for 2019/20:



The total chargeable days (850) are split 50/50 for **Sevenoaks** and **Dartford** creating a plan for Sevenoaks of **425** days. We ensure flexibility in how these days are deployed by allocating days to different activities, most of which are planned, but with some available for reactive ad-hoc work.

We use a time recording system called Teammate to log all time spent on the different audit related tasks. This system enables us to capture time spent delivering different activities and time spent conducting individual audit projects. As a result, we can track and report, in 'real-time', how we are using our audit days and if we are on course to deliver the plan.

At the Audit Committee meeting in March 2019, Members agreed for us to roll forward (into May/June) a handful of 2018/19 projects. These were carried over into this year as we spent much of 2018/19 with vacancies, and undergoing a significant amount of internal change and improvement. As a result, our work on the 2019/20 audit plan, has only just commenced (June).

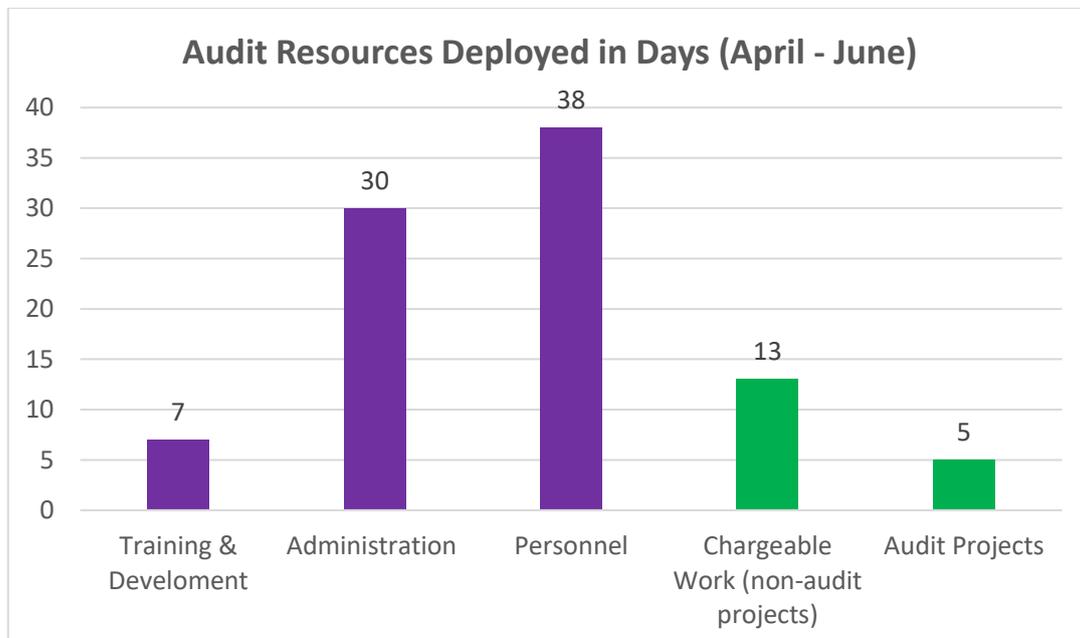
## Agenda Item 10

The table below shows the total allocation of **425** audit days for Sevenoaks, and shows how many days we have allocated so far this year:

Activity	Sevenoaks		
	Total Days 19/20	Outturn to June 19	2018/19 Work
Risk Management	10	2.5	
Counter Fraud	5	2	
Member Support/Training/Meetings	10	1	
Follow-Up	15	1	
Audit Planning	10	1.5	
Advisory & Consultancy	50	5	
Audit Project Days	325	5	35
<b>Total Days</b>	<b>425</b>	<b>18</b>	<b>35</b>

Audit days between April – June have mainly be spent completing and closing down the 2018/19 work. Progress on our 2019/20 projects has been slightly delayed, however, with almost all of the 18/19 work now substantially finished, we are confident that we will be able to make up the delay over the course of the year. Members will continue to see progress as part of our regular reporting to Audit Committee.

As outlined above, the Audit Partnership resources are made up of more than just our 850 chargeable days. In order to provide some additional context into time deployed so far for 2019/20 the graph below shows our non-chargeable totals up to June:



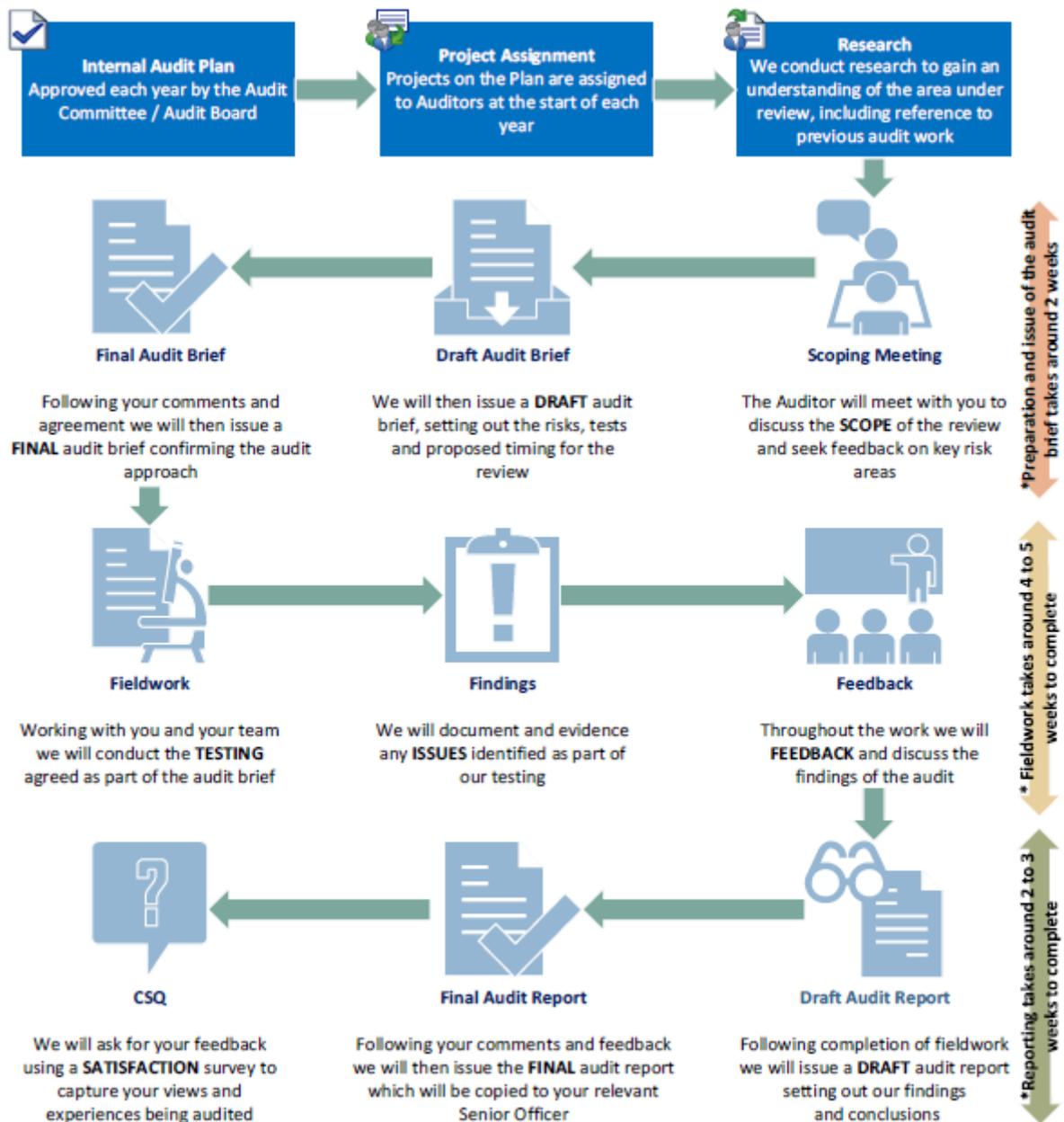
The high number of days allocated to ‘personnel’ is linked to the work ongoing with our restructure (covered later in this report).



## Audit Process

The purpose of an Internal Audit is to provide independent and objective assurance over the effectiveness of the Council’s controls, risks and governance. We achieve this by documenting, reviewing and testing the systems, processes and controls in place for each area under review.

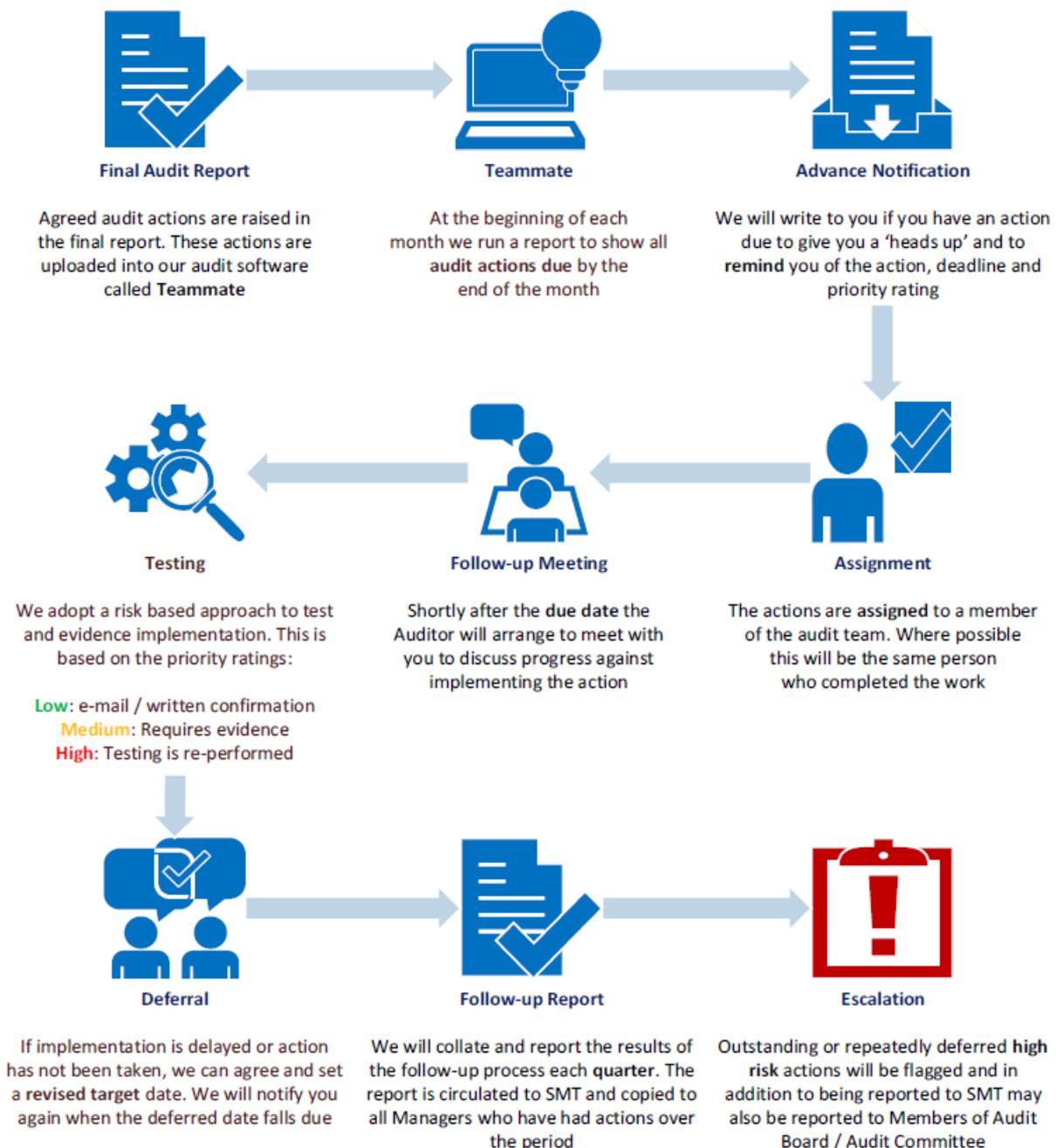
The summary below shows our Internal Audit process, which takes into account the requirements of the **Public Sector Internal Audit Standards** and creates a consistent approach for our work across the Partnership.



*\*Timings are indicative, but generally we will aim to complete our work within 10 weeks of the brief being issued, adjusting for circumstances (such as Officer leave). This is only possible with your co-operation and availability during the audit process.*

## Audit Findings

Upon completion of our work, if we identify any issues, we will raise **actions** to assist management in addressing control failings, or to suggest service improvements. Action taken as a result of our audit work is extremely important to capture and track and it is a measurable way for us to measure and quantify the value added by the audit process. The illustration below summarises the follow-up process that adopt, up to and including escalation to Members via the Audit Committee:



*\*The follow-up exercise will be undertaken each month to ensure that actions are not left untracked. Is it therefore important that the dates you set for implementation are realistic and reasonable as it is that date that will trigger this process. We will report the outcomes quarterly to give an overall view of progress across the Council.*

## Audit actions

Based on the results of our current follow-up work, there are **13** actions that are ‘live’ and which we are actively tracking and monitoring. We will report progress on the implementation of these actions as they fall due.

The table below sets out the follow-up activity over the last quarter (April – Jun) and shows in more detail actions that are closed, not due yet, and completed:

Project	Report Issue Date & Rating	Recs Agreed	Delayed	Agreed Deferrals	Not due	Closed	Completed	Full Completion date
IT Acquisitions 2017/18	28/6/17 Substantial Assurance	2	0	0	0	1 (Low)	1	June 2019
Key Financial Systems 2017/18	9/4/18 Limited Assurance	5	0	0	0	1 (Medium)	4	June 2019
Print Studio 2017/18	13/4/18 Limited Assurance	3	0	3 (1 High, 2 Medium)	0	0	0	-
Environmental Health – Food Safety 2018/19	December 2018 Substantial Assurance	3	0	0	1 (Medium)	0	2	-
CIL 2018/19	December 2018 Substantial Assurance	2	0	0	1 (Medium)	0	1	
Markets 2018/19	April 2019 Substantial Assurance	1	0	0	0	0	1	May 2019
Payroll 2018/19	May 2019 Full Assurance	2	0	0	1 (Medium)		1	-
Accounts Receivable Systems Mapping 2018/19	June 2019 Substantial Assurance	1	0	0	1 (Medium)	0	0	-
GDPR 2018/19	June 2019 Substantial Assurance	6	0	0	6 (4 Medium, 2 Low)	0	0	-
<b>TOTAL</b>		<b>25</b>	<b>0</b>	<b>3</b>	<b>10</b>	<b>2</b>	<b>10</b>	

## Closed actions

We have been tracking progress from one action dating back to our 2017/18 audit work. The action relates to separation of duties with the Finance Team. Since completion of this audit we have changed our approach to auditing the financial systems. As such, we will be undertaking more detailed audits of individual systems over the course of the next couple of years. Given that compensating controls are in place, and that the service is currently undertaking a service review, we have closed the action as we will cover it as part of our later audit work in 2019/20:

<b>Key Financial Systems 2017/18 - (April 2018)</b>	<b>Medium Priority</b>
<p><b>Action 1:</b> Whilst compensating controls may be elsewhere within the systems operated by Finance consideration should be given to improving the separation of duties within the Finance team.</p>	
<b>Response – Head of Finance (June 2019)</b>	
<p><b>Response 1:</b> The Finance Service is undergoing review and this includes a wider look at roles and responsibilities. This work needs to be carefully considered and will be ongoing through 2019/20. The compensating controls provided through the system will continue to be active to provide separation of duties.</p>	

## Agreed deferred actions

Following review of current progress we have agreed to defer 1 **HIGH** and 2 **MEDIUM** priority action until later in the year. These actions have already been deferred twice, and so we have asked for the Manager to provide an update:

<b>Print Room 2017/18 – (April 2018)</b>	<b>High Priority</b>
<p><b>Action 1:</b> 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>	
<b>Response – Head of Transformation &amp; Strategy (June 2019)</b>	
<p><b>Response 1:</b> The Prisma software has been installed and the Print Studio have built the detailed pricing structure for all order types. The new ordering system is programmed to be tested with the Communications Team initially to ensure the completeness and accuracy of the system. It is expected that the testing will be completed over the summer months, with roll-out to all customers no later than the end of October this year. This will accompany the installation of new printers and additional training requirements that are integral to the success of the implementation of the new system.</p>	

## Agenda Item 10

### Print Room 2017/18 – (April 2018)

Medium  
Priority

**Action 2:** Calculations [of print jobs] should be checked for accuracy by another member of staff. In the longer term, all job costings should be calculated on the 'Cannon Prisma' software as there is a facility to do this.

**Action 3:** 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.

### Response – Head of Transformation & Strategy (June 2019)

**Response 2:** Accuracy checks on the pricing of print orders will continue until the full roll-out of the Prisma system later this year.

**Response 3:** Improved recording of transactions with staff has been implemented, with the plan to migrate all transactions to the Prisma software later this year.

We will undertake detailed follow-up on these actions when they fall due in line with the revised timeline.

## Service update

In the January 2019 the Audit Partnership Board meeting agreed to extend the secondment with Mid Kent Audit, to provide Audit Management (Chief Audit Executive) from **01/04/2019** to **31/03/2020**.

We are now approaching the stage most of the work to address the outstanding External Quality Assessment recommendations (which were reported to Audit Committee in **July 2018**) have been completed. A self-assessment against the full Standards will be conducted over the summer and the outcomes reported to Audit Committee in September 2019. The table below sets out the progress to date against the objectives set in the secondment agreement:

Action Area	Description	Progress	EQA
<b>Audit Strategy &amp; Operating Models</b>	Draft the Internal Audit Strategy and delivery model options for the longer term operation of the service	80%	EQA 1.1
<b>Audit Charter</b>	Update the Internal Audit Charter to be compliant with the PSIAS, and to better reflect the level of service for each Authority. Charters to also set out the roles of CAE, Audit Committee and sets out the safeguards to independence	100%	EQA 1.0, 1.2
<b>Internal Audit Process</b>	Undertake an exercise to refresh the audit process to ensure compliance with PSIAS and harmonised where appropriate across both Authorities with the aid of Teammate to provide efficiency and consistent working practices	100%	EQA 3.2, 3.5, 4.1, 4.2, 4.6
<b>Brand &amp; Presentation</b>	Update and refresh key audit documents (audit briefs, reports, follow-ups, and management team / audit committee reports) to include recognised good practice and to meet the needs of each Partner	100%	EQA 4.2
<b>Communication &amp; Engagement</b>	Create a suite of supporting literature for auditees and the Council to raise awareness of the service and wider profession (providing clarity / education of the internal audit service, process, FAQ's and consultancy & additional services)	90%	EQA 4.1, 4.2, 5.4
<b>Risk Management</b>	Provide updated risk management strategies for each Partner, including recognised good practice updates, and improved risk reporting to Management Teams and Members	50%	

Over the summer it will also be time to revise and set new objectives for the rest of the year. These will start to focus more strategically around setting the ambition and vision for the service, as well as continuing to improve on quality and service delivery.

### The Audit Partnership restructure

We have kept Members up to date with the progression of our service objectives following appointment of the Interim Audit Manager (Chief Audit Executive) in August 2018. As set out above, the main focus over 2018/19 was to develop the service, improve quality, and address the outstanding actions from the 2017 External Quality Assessment follow-up.

A key element of this work included a review and restructure of the Audit Partnership, designed to create a sustainable, high quality, and a fully compliant Internal Audit service for the long term. In March 2019 we provided a summary of the work to be undertaken and a timeline for key milestones in the process.

These key milestones (updated to reflect the current position) are set out below:

- ~~April~~ **May 2019:** Following a period of consultation, the new service structure is agreed
- ~~May~~ **June 2019:** Assessments are undertaken to align skills, knowledge and competencies with the roles and responsibilities in the new structure
- **June 2019:** Vacancies are advertised
- **July 2019:** Appointments are offered, and depending on notice periods, recruitment exercises are closed
- **August 2019 onwards:** New structure is live and induction and embedding work commences
- **September 2019 onwards:** Work begins to set the longer term strategy for the Partnership
- **December 2019 to March 2020:** Audit planning exercise undertaken to draft a 3-5 year assurance plan, showing coverage of the audit universe and alignment to strategic objectives

We will continue to keep Members updated with progress, especially once appointments have been made, as part of our usual quarterly update reports.

### Acknowledgements

We would like to thank Officers, Managers and Members for their ongoing support and assistance as we undertake our work throughout the year. Internal Audit continues to be seen as a critical friend within the Council and we are pleased to report that we do not receive any undue pressure or hindrance when undertaking our work.

In addition, all of the internal work we have been undertaking to review, update and improve our service would not have been possible without the hard work and dedication of the audit team, and their willingness to embrace new ways of working.

Appendix I

Definitions of Assurance ratings:

OPINION	DEFINITIONS
<p><b>Full Assurance</b></p> <p>(no High or Medium priority actions)</p>	<p>A sound framework of control is in place that meets Council or service objectives. All expected controls tested are in place and are operating effectively.</p> <p>A review with this level of assurance will generally have no actions, or very few <b>LOW</b> priority actions. Agreed actions will be followed up as they fall due.</p>
<p><b>Substantial Assurance</b></p> <p>(no High priority actions)</p>	<p>There is generally a sound framework of control in place that meets Council 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>A review of this level of assurance may raise a number of <b>MEDIUM</b> priority actions. Agreed actions will be followed up as they fall due.</p>
<p><b>Limited Assurance</b></p>	<p>There are weaknesses within the framework of control or 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>A review with this level of assurance will raise one or more <b>HIGH</b> priority actions. Actions with a high priority should be acted on as soon as practical and will be followed up as soon as they fall due.</p>
<p><b>No Assurance</b></p>	<p>Key controls are absent from the framework of control. There are fundamental weaknesses identified with both the design and operation of the system under review. As a result, it is unlikely that Council or service objectives will be achieved.</p> <p>A review of this level may include a number of <b>HIGH</b> or <b>CRITICAL</b> priority actions. Actions of a critical level will be reported as soon as they are identified and escalated to the relevant Senior Manager. Actions to address the findings will be followed up as soon as they fall due.</p>

### Audit Findings Priority Ratings

Priority	Definition
<p style="text-align: center;"><b>Critical</b></p>	<p>Control weakness that could have a significant impact upon not only the system, function or process objectives, but also the achievement of the organisation’s objectives in relation to:</p> <ul style="list-style-type: none"> <li>• the efficient and effective use of resources</li> <li>• the safeguarding of assets</li> <li>• the preparation of reliable financial and operational information</li> <li>• compliance with laws and regulations</li> </ul>
<p style="text-align: center;"><b>High</b></p>	<p>Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organizational objectives.</p>
<p style="text-align: center;"><b>Medium</b></p>	<p>Control weakness that has a low impact on the achievement of the key system, function or process objectives; or This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.</p>
<p style="text-align: center;"><b>Low</b></p>	<p>Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.</p>
<p style="text-align: center;"><b>Advisory</b></p>	<p>Observations and areas for consideration, these findings are drawn from our shared experience of working across the Council and more widely with partners. These findings require no formal response and will not be followed up.</p>

## REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE 2018/19

### Audit Committee - 18 July 2019

Report of the: Chief Finance Officer

Status: For Consideration

Key Decision: No

---

This report supports the Key Aim of: Effective Delivery of the Council Plan

Portfolio Holder Cllr Matthew Dickins

Contact Officer Adrian Rowbotham, ext. 7153

---

#### Recommendation to Audit Committee: That

- (a) Members **discuss** & subject to comments, **approve** the Self-Assessment Review of the Effectiveness of the Audit Committee (Appendix A) for 2018/19.
  - (b) Members **approve** to undertake the revised self-assessment (Appendix B) later in the year to identify any areas of improvement
- 

**Reason for Recommendation:** The Audit Committee is a key component of the Council's governance framework. It is an important source of assurance for the Council's arrangements to manage risk, maintain an effective control environment and report on financial and other performance. It is therefore vital that the Audit Committee is effective, and that we have arrangements in place to continually support, develop and enhance the Committee.

The self-assessment against CIPFA's **Audit Committees - Practical Guidance for Local Authorities** indicates that the arrangements in place are fully compliant, and that Committee has operated effectively over the course for 2018/19.

---

#### Introduction and Background

- 1 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for public finance. They have recognised the importance of the Audit Committee and issued a position statement setting out the functions, composition, skills and requirements. As part of this guidance, they published a self-assessment checklist against each of the key requirements.

## Agenda Item 11

- 2 Members of this Committee have always supported the notion of continual development and improvement, and have accepted the underlying principles set out in CIPFA guidance. Therefore, the Committee has undertaken a self-assessment for a number of years using the self-assessment checklist. We have used the same checklist as in previous years to undertake the self-assessment to look back on 2018/19. The outcomes of the assessment (**Appendix A**) show that the Committee complies with all aspects set out in the checklist.
- 3 The checklist has been amended where necessary to reflect our local approach, and to take out any elements now relevant to Local Government governance. The assessment 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 2018/19. 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

- 4 In addition to the above, a separate questionnaire has been sent to each member of the 2018/19 Audit 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.
- 5 The responses to the questionnaire to date, can be found in Appendix C. We will keep a record of responses as they are received, including any that come back after the date of compiling this report.

## Next Steps

- 6 In March 2018 CIPFA revised its position statement, in addition to recognising the broadening role of the Audit Committee (in aspects such as counter fraud, culture, and External Audit appointments), they also revised the self-assessment checklist (**Appendix B**). The new assessment takes a step back, and looks more widely at the core functions of the Committee, and seeks examples and evidence to support a more comprehensive output. As the Committee is newly formed for 2019/20, this is something that we would recommend for later in the year, and could be used to inform for ongoing work plan and development programme for the Committee.

## 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 self-assessment against CIPFA's **Audit Committees - Practical Guidance for Local Authorities** indicates that the arrangements in place are fully compliant, and that committee has operated effectively over the course for 2018/19.

## Appendices

Appendix A - Self-Assessment Checklist & outcomes

Appendix B - Updated Self-assessment Checklist for 2019/20

Appendix C - Questionnaire Response

## Background Papers:

CIPFA guide Audit Committees - Practical Guidance for Local Authorities (2018 Edition) - This is a purchased publication, a full copy of the 88 page guidance is available upon request.

**Adrian Rowbotham**  
Chief Finance Officer

This page is intentionally left blank

## Appendix A

### Results of the Self-Assessment Checklist

In order to assess the effectiveness of the Audit Committee we have undertaken a desktop exercise against good practice, as set out in CIPFA's [Audit Committees - Practical Guidance for Local Authorities](#). Drawing on the Committee's Terms of Reference and operation over the course of the year, we have used the checklist to identify any areas of non-compliance or possible areas for improvement to build into the future work programme of the Committee.

The results of the assessment are set out in the table below:

Criteria	Yes	No	Comments
<b>1. Terms of Reference</b>			
1.1 Have the Committee's terms of reference been approved by full Council?	✓		Terms of Reference for the Audit Committee were approved at the Annual Council meeting in May 2019.
1.2 Do the terms of reference follow the CIPFA model	✓		In addition to including key governance areas the Terms of Reference have also been tailored to meet specific needs of the Council. For instance, procurement.
<b>2. Internal Audit Process</b>			
2.1 Does the Committee approve the Audit Strategy & Annual Audit Plan?	✓		The Audit Plan and wider assurance programme is approved each year, most recently in March 2019.
2.2 Is the work of Internal Audit reviewed regularly?	✓		Audit progress is reported quarterly, and is a standing Audit Committee agenda item.
2.3 Are summaries of quality questionnaires from managers reviewed?	✓		Client feedback is reported annually.
2.4 Is the Annual Internal Audit Opinion, presented to the Committee?	✓		The Opinion, and wider effectiveness of Internal Audit is reported annually, most recently in July 2019.
<b>3. External Audit Process</b>			
3.1 Are reports on the work of External Audit and other inspection agencies presented to the Committee?	✓		External Audit updates are reported to 3 of the 4 meetings over the course of the year.
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.

Agenda Item 11  
Appendix A

Criteria	Yes	No	Comments
3.3 Does the Committee ensure that officers are acting on and monitoring action taken to implement recommendations?	✓		
3.4 Does the Committee take a role in overseeing: <ul style="list-style-type: none"> <li>• <i>Risk Management strategies</i></li> <li>• <i>Annual Governance Statement</i></li> <li>• <i>Anti-Fraud arrangements</i></li> <li>• <i>Whistle-blowing strategy</i></li> </ul>	✓		These documents are reported periodically to the Committee
<b>4. Membership</b>			
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?	✓		A Member Development Programme was adopted in October 2018 and is mapped to the key duties of the Committee.
4.5 Can the Committee access other Committees as necessary?	✓		Mechanisms exist within the Constitution to allow for other Committees to refer issues to the Audit Committee.
<b>5. Meetings</b>			
5.1 Does the Committee meet regularly?	✓		The Committee meets at least 4 times a year.
5.2 Are separate, private meetings held with the external auditor and the internal auditor?	✓		Arrangements are in place to allow the Committee to meet with the Auditors (External & Internal) privately if requested. The Chairman meets jointly with the Audit Manager and the Chief Finance Officer monthly.
5.3 Are meetings free and open without political influences being displayed?	✓		
5.4 Are decisions reached promptly?	✓		

Appendix A

Criteria	Yes	No	Comments
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?	✓		In addition to regular Chief Officer and Manager support, the Committee is able to request attendance of others where necessary.
<b>6. Training</b>			
6.1 Is induction training provided to members?	✓		All new Members are given an induction
6.2 Is more advanced training available as required?	✓		The Member Development Programme was formally adopted by the Committee in October 2018. Additional training can be requested by the Chairman at any time.
<b>7. Administration</b>			
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?	✓		Officers support the Committee, and the Committee is able to invite Officers to attend.
<b>8. PSIAS</b>			
8.1 Has the Committee been advised of the requirements of the Internal Audit Standards?	✓		Training on Internal Auditing and Standards was delivered in June 2017 and features on the Member Development Programme.

There are no areas where the Audit Committee is not following recommended practice, and the assessment has not identified any specific areas for specific improvement.

As a result of the above assessment our conclusion is that the Audit Committee continues to provide an effective platform for oversight, challenge and assurance to the Public.

This page is intentionally left blank

## APPENDIX B

# Self-assessment of good practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA’s Position Statement and this publication. Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good practice questions		Yes	Partly	No
<b>Audit committee purpose and governance</b>				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (applicable to local government only)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA’s Position Statement?			
4	Is the role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
<b>Functions of the committee</b>				
7	Do the committee’s terms of reference explicitly address all the core areas identified in CIPFA’s Position Statement?			
	■ good governance			
	■ assurance framework, including partnerships and collaboration arrangements			
	■ internal audit			
	■ external audit			
	■ financial reporting			
	■ risk management			
	■ value for money or best value			

Good practice questions		Yes	Partly	No
	<ul style="list-style-type: none"> <li>■ counter fraud and corruption</li> </ul>			
	<ul style="list-style-type: none"> <li>■ supporting the ethical framework</li> </ul>			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?			

### Membership and support

12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> <li>■ separation from the executive</li> <li>■ an appropriate mix of knowledge and skills among the membership</li> <li>■ a size of committee that is not unwieldy</li> <li>■ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement)</li> </ul>			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?			
14	Does the chair of the committee have appropriate knowledge and skills?			
15	Are arrangements in place to support the committee with briefings and training?			
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?			
18	Is adequate secretariat and administrative support to the committee provided?			

Good practice questions		Yes	Partly	No
<b>Effectiveness of the committee</b>				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
20	Are meetings effective with a good level of discussion and engagement from all the members?			
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?			
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?			
23	Has the committee evaluated whether and how it is adding value to the organisation?			
24	Does the committee have an action plan to improve any areas of weakness?			
25	Does the committee publish an annual report to account for its performance and explain its work?			

This page is intentionally left blank

## Appendix C

## 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?	Efficiently - overall it is a Committee I have been proud to serve on.
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?	Yes, it has regular 'visits' to certain areas and retains flexibility for others too
3	What is your view on the quality of the reports received?	Good quality
4	Is the level of detail correct?	Yes
5	What improvements would you like to see in reports?	Cannot think of anything to add
6	Is it helpful to have Grant Thornton present at 3 meetings?	Yes, definitely
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?	I hope so! Have certainly enjoyed the learning curve.
8	Any other comments	None

This page is intentionally left blank

**Audit Committee 2019/20 - Work Plan (as at 03/07/19)**

	18 July 2019	17 September 2019	28 January 2020	26 March 2020
<b>Internal Audit</b> (Irregularities to be reported confidentially as & when necessary)	Internal Audit Annual Report & Annual Opinion 2018/19  Internal Audit Progress Report 2019/20	Internal Audit Progress Report 2019/20  Audit Partnership Self-Assessment against PSIAS	Internal Audit Progress Report 2019/20	Internal Audit Progress Report 2019/20  Internal Audit Progress Plan 2020/21
<b>Risk Management</b>		Risk Management Update 2019		
<b>Accounts and External Audit</b>	Statement of Accounts 2018/19		External Audit - Annual Audit Letter 2018/19  External Audit - Housing Benefit Subsidy 2018/19	Annual Governance Statement 2019/20  External Audit - Annual Audit Plan 2019/20  Statement of Accounts 2019/20 - Establishment of Member Working Group

	18 July 2019	17 September 2019	28 January 2020	26 March 2020
<b>Other</b>	Audit Committee Terms of Reference Local Code of Corporate Governance Review of the Effectiveness of the Audit Committee 2018/19 Counter Fraud and Compliance Report 2018/19	Members' Allowance Scheme Monitoring		Annual Report to Council
<b>Members Development Briefings</b>	TBC	TBC	TBC	TBC