

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Tuesday 27 September 2022
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Bartlett (Chairman), Bryant, Cox (Vice-Chairman), Forecast, Jeffery, Khadka, Knatchbull, Titchener (Parish Representative), Trzebinski and D Wilkinson

The Chairman will assume that all Members will read the reports before attending the meeting. Officers are asked to assume the same when introducing reports.

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2. Notification of Substitute Members	
3. Urgent Items	
4. Notification of Visiting Members	
5. Disclosures by Members and Officers	
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7. To consider whether any items should be taken in private because of the possible disclosure of exempt information	
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Issued on Friday 16 September 2022

Continued Over/:

Alison Broom

Alison Broom, Chief Executive

- | | |
|--|---------|
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INFORMATION FOR THE PUBLIC

In order to ask a question at this meeting, please call **01622 602899** or email committee@maidstone.gov.uk by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Friday 23 September 2022). You will need to provide the full text in writing.

If your question is accepted, you will be provided with instructions as to how you can access the meeting.

In order to make a statement in relation to an item on the agenda, please call **01622 602899** or email committee@maidstone.gov.uk by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Friday 23 September 2022). You will need to tell us which agenda item you wish to speak on.

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MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 26 JULY 2022

Present:

Committee Members:	Councillor Bartlett (Chairman) and Councillors Brindle, Coulling (Parish Representative), English, Mrs Gooch, Hinder, Jeffery, Knatchbull, Trzebinski and D Wilkinson
Lead Members:	Councillor Perry (Lead Member for Corporate Services)
Visiting Members:	Councillor Cleator

1. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Bryant, Cox, Forecast, Khadka and Titchener (Parish Representative).

2. NOTIFICATION OF SUBSTITUTE MEMBERS

The following Substitute Members were noted:

Councillor Brindle for Councillor Bryant
Councillor English for Councillor Khadka
Councillor Mrs Gooch for Councillor Cox
Councillor Hinder for Councillor Forecast

3. ELECTION OF CHAIRMAN

RESOLVED: That Councillor Bartlett be elected as Chairman of the Committee for the remainder of the Municipal Year 2022/23.

4. ELECTION OF VICE-CHAIRMAN

RESOLVED: That Councillor Cox be elected as Vice-Chairman of the Committee for the remainder of the Municipal Year 2022/23.

5. URGENT ITEMS

The Chairman said that he had agreed to take the update report to agenda item 20 (Draft Annual Accounts 2021/22) as an urgent item as the updated Narrative Report replaced the original version.

6. NOTIFICATION OF VISITING MEMBERS

Councillor Cleator indicated her possible wish to speak on agenda item 20 (Draft Annual Accounts 2021/22).

Councillor Perry, Lead Member for Corporate Services, was also in attendance.

7. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

8. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

9. EXEMPT ITEMS

RESOLVED: That the items on the agenda be taken in public as proposed.

10. MINUTES OF THE MEETING HELD ON 14 MARCH 2022

RESOLVED: That the Minutes of the meeting held on 14 March 2022 be approved as a correct record and signed.

11. ANY QUESTIONS ON NOTICE FROM LOCAL RESIDENTS

There were no questions from local residents.

12. ANY QUESTIONS ON NOTICE FROM MEMBERS

There were no questions from Members.

13. COMMITTEE WORK PROGRAMME 2022/23

The Committee considered its work programme for the 2022/23 Municipal Year.

In response to a question, the Head of Policy, Communications and Governance confirmed that the Annual Complaints Report 2021/22 would include the Local Government and Social Care Ombudsman's Annual Review Letter 2021/22.

RESOLVED: That the Committee work programme 2022/23 be noted.

14. CHANGE TO THE ORDER OF BUSINESS

The Chairman said that he intended to change the order of business to take agenda item 23 (Annual Internal Audit Report and Opinion 2021/22) before agenda item 14 (Annual Governance Statement 2021/22 and Local Code of Corporate Governance Update 2022) as the Interim Head of Audit Partnership's opinion in the Annual Internal Audit Report was a key element of the Annual Governance Statement.

15. ANNUAL INTERNAL AUDIT REPORT AND OPINION 2021/22

The Interim Head of Audit Partnership introduced the Annual Internal Audit Report and Opinion 2021/22. In accordance with the Public Sector Internal Audit Standards (the Standards), the report included:

- The annual opinion of the Interim Head of Audit Partnership on the overall adequacy and effectiveness of the Council's internal controls, corporate governance framework and risk management arrangements;
- A summary of the work completed by Mid-Kent Audit that supported the opinion; and
- A statement on conformance with the Standards.

It was noted that:

- The planned programme of work delivered by the Internal Audit team had been constrained by the impact of the COVID-19 pandemic restrictions and significant staffing changes within the team. The results of the reduced level of internal audit work concluded during the year required the Interim Head of Audit Partnership to seek additional assurances to form his opinion (including the work of the Mid-Kent Services Benefits Fraud team and other corporate monitoring teams and the outcomes of an external review of the Council's ICT cyber security arrangements). Utilising all these forms of assurance, the Interim Head of Audit Partnership was able to draw a positive conclusion as to the adequacy and effectiveness of the Council's risk management, control and governance processes. In his opinion, the Council had adequate and effective management, control and governance processes in place to manage the achievement of its objectives.
- The Interim Head of Audit Partnership had reached his conclusions independently and without any undue pressure from Officers or Members.

In response to questions, the Officers explained that:

- Details of audit findings were reported back to the Committee. However, at this stage, that information was not ready. The Interim Head of Audit Partnership's opinion was such that he was still able to give a clean bill of health and Members were still in a position to agree that the opinion could be relied upon.
- The Standards required audit planning to start with a risk assessment considering internal and external risks. Based on the risk assessment and consultations with management and to ensure the Plan remained flexible and responsive to emerging and changing risks throughout the year, a priority rating was allocated to each of the audit projects included in the Plan. Local Plan Budget and Spending had been allocated a medium priority rating. The aim had been to focus on the delivery of all high priority rated projects and some medium priority rated projects during the year. It was the intention to focus on high priority rated projects in future.
- Work on the audit review of IT Development was ongoing. It was being undertaken by specialist contractors.

During the discussion, the Internal Audit team was thanked for its efforts.

RESOLVED:

1. That the annual opinion of the Interim Head of Audit Partnership on the overall adequacy and effectiveness of the Council's internal controls, corporate governance framework and risk management arrangements be noted.
2. That the work underlying the opinion and the Interim Head of Audit Partnership's assurance of its independent completion in conformance with proper Standards be noted.

16. ANNUAL GOVERNANCE STATEMENT 2021/22 AND LOCAL CODE OF CORPORATE GOVERNANCE UPDATE 2022

The Head of Policy, Communications and Governance introduced her report setting out the Annual Governance Statement for 2021/22 and a refreshed Local Code of Corporate Governance with minor amendments. It was noted that:

- The Annual Governance Statement was a review of the Council's governance arrangements for the last financial year. The purpose of the Annual Governance Statement was to provide assurance that the Council's governance arrangements were adequate and operating effectively and to identify actions which were planned to ensure effective governance in the future.
- Overall, the Officers could confirm that the Council had the appropriate systems and processes in place and progress had been made against last year's action plan. The most significant governance issues related to the change from a Committee to an Executive system in May 2022 with actions focused on ensuring an effective decision-making process and a workable Constitution. There were also actions to ensure compliance with the Financial Management Code and to address corporate risks.
- Amendments had been made to the Local Code of Corporate Governance. These were principally required to reflect the recent change to the Council's governance arrangements from a Committee to an Executive system.

In response to questions, the Head of Policy, Communications and Governance advised the Committee that:

- In terms of the length of the report and the need for an executive summary, there was a very short executive summary at the beginning of the covering report and the actual Annual Governance Statement also contained a short executive summary which she would look at expanding upon next year. In the meantime, she would give feed-back to report authors about the need to provide executive summaries.
- During 2021/22, the Policy and Information team had carried out 23 consultations. The information gathered through these surveys was used to support decision making and shape policy/strategy development going forward. She would circulate details to all Members of the Committee.
- Further information would be provided in the Annual Governance Statement next year about the various methods used to consult and engage with people

and to ensure inclusivity (focus groups, digital tools, social media and face-to-face etc.).

Councillor Mrs Gooch wished to place on record her thanks to the staff involved with the preparation of the Annual Governance Statement and the refreshed Local Code of Corporate Governance having regard to the additional work required as a result of the change from a Committee to an Executive system.

RESOLVED: That subject to the points raised in the discussion,

1. The Annual Governance Statement 2021/22, attached at Appendix A to the report of the Head of Policy, Communications and Governance, be approved and signed off by the Leader of the Council; and
2. The refreshed Local Code of Corporate Governance, attached at Appendix B to the report of the Head of Policy, Communications and Governance, be approved.

17. UPDATE ON THE GOVERNMENT'S RESPONSE TO THE CSPL REPORT

The Team Leader, Contentious and Corporate Governance, introduced the report setting out the Government's response to the recommendations of the Committee on Standards in Public Life (CSPL) arising from its review of local government ethical standards. It was noted that:

- The Government's response was that no legislative changes were required, which meant that there was limited scope for amendment of the Local Authority Standards regime. As an example, there could be no sanctions of a punitive nature such as suspension of a Councillor for breach of the Code of Conduct.
- The Government had taken the view that it was for local authorities to determine their own Code of Conduct and ethical standards based on the Nolan Principles.

During the discussion, Members expressed disappointment with the Government's response to the CSPL's recommendations given the work involved in undertaking the review. It was also suggested that re-ordering of the Officers' report would have helped Members in their consideration of the contents.

RESOLVED: That the Government's response to the recommendations of the Committee on Standards in Public Life (CSPL) arising from its review of local government ethical standards be noted.

18. MODEL CODE OF CONDUCT

The Team Leader, Contentious and Corporate Governance, introduced the report providing an update on the production of a new Kent Code of Conduct for Members. It was noted that:

- The Kent Secretaries group had produced draft model templates for a new Kent Code for Members of Principal Authorities and a new Kent Code for Members of Town and Parish Councils. In addition, a new model procedure for handling Code of Conduct complaints had been produced. The draft

documents had been seen by KCC Members, who had requested further amendments, and shared with the Kent Association of Local Councils (KALC). Ultimately, the aim was to provide a Code that could be used by all Councils to provide a county-wide consistency of approach. The model Kent version would first need to be adopted by the County Council for consistency, but each Principal Authority and each Parish Council would make the final adoption decision themselves.

During the discussion, it was pointed out that the Maidstone Area Committee of KALC had now considered the draft documents and was of the view that it was in everyone's interest to settle upon a Code that all Parish Councils would feel comfortable to adopt. Maidstone Parish Councils had been given the opportunity to submit comments by the middle of August to feed into the meeting of the Kent Secretaries group in September.

In response to questions/comments, the Team Leader, Contentious and Corporate Governance, advised the Committee that:

- There was no provision in current legislation for a sanction to suspend a Councillor found to have breached the Code of Conduct so it would be unlawful to include such a sanction in the new Code of Conduct.
- Once the documentation had been finalised, the options for the Borough Council would be to continue with the existing Code of Conduct, adopt the Local Government Association's draft Model Code of Conduct, adopt the new Kent Code of Conduct or adopt its own bespoke Code of Conduct. The timescale was potentially late Autumn.
- He would review the draft new Kent Code for Members of Town and Parish Councils to ensure that references to Town/Parish Councils are consistent and to delete interests that do not relate to functions of those Authorities.

RESOLVED: That subject to the points raised in the discussion, the report be noted.

19. HOUSING BENEFIT SUBSIDY CLAIM 2020-21

The Interim Head of Mid-Kent Revenues and Benefits Partnership introduced her report setting out the findings of the audit undertaken by Grant Thornton, the External Auditor, to certify the Council's Housing Benefit Subsidy Claim for 2020/21. It was noted that whilst the audit identified six errors for which an adjustment had to be made, the original claim as presented by the Council was held to be 99.99% accurate.

Members congratulated the Revenues and Benefits team on the accuracy of its work.

RESOLVED: That the findings of the audit undertaken by Grant Thornton, the External Auditor, to certify the Council's Housing Benefit Subsidy Claim for 2020/21 be noted.

20. FRAUD AND COMPLIANCE TEAM UPDATE 2020-21 AND 2021-22

The Interim Head of Mid-Kent Revenues and Benefits Partnership introduced her report providing an update on the work undertaken by the Fraud and Compliance team within the Mid-Kent Revenues and Benefits Partnership during the financial years 2020/21 and 2021/22. It was noted that:

- Due to the COVID-19 pandemic, it had been necessary to use part of the team to help with applications for Business Rates Grants and Test and Trace payments. This meant that performance was reduced over the two years.
- The team had now recommenced its reviews of discounts and was about to commence a review of all long-term empty properties. This would help the New Homes Bonus claim and bring empty properties back into use. Despite the reduction in the work carried out, the team had managed to meet the targets set.

RESOLVED: That the work undertaken by the Revenues and Benefits Fraud and Compliance team for the years 2020/21 and 2021/22 be noted and that the Revenues and Benefits team be thanked for its work.

21. EXTERNAL AUDIT 2020/21

The Director of Finance and Business Improvement introduced his report providing an update on progress with the audit of the 2020/21 financial statements. It was noted that although Grant Thornton, the External Auditor, had consistently stated that there were no issues that would prevent them issuing an unqualified opinion, the audit was still not complete. Grant Thornton had indicated that they had further queries that they needed to discuss with the Finance team. The Council was content to accept Grant Thornton's position on what seemed to be the key issue which was around the accounting treatment for the Brunswick Street and Union Street housing projects, so there was no argument between the Council and Grant Thornton. The Officers would continue to work with Grant Thornton to try and resolve the issues and hoped that it would be possible to bring a signed audit report to the September meeting of the Committee.

In response to questions, the Director of Finance and Business Improvement advised the Committee that:

- He did think that the 2020/21 accounts would be signed off in time for the September meeting of the Committee. Mr Paul Dossett of Grant Thornton would be invited to attend the meeting to provide an explanation if an audit opinion had not been issued by then. The Council would make sure that Grant Thornton had the information available to undertake the 2021/22 audit. Members of their team were scheduled to work on the audit in August so in principle they should be ready to sign off the audit in time.
- He thought that the issue for the delay was that Grant Thornton did not address all the questions that they should have done at the time of the original audit (for example in relation to the accounting treatment for the Brunswick Street and Union Street housing projects). If the work had been done on time, it would have been less time consuming for everyone.

- The Council did not appoint the External Auditor directly having opted into an outsourced procurement arrangement with Public Sector Audit Appointments, a subsidiary of the Local Government Association.
- Delays in signing off local authority audits was a common problem. As of April 2022, 40% of English local authorities had not had their 2020/21 accounts signed off. The Council could not be penalised for the delay, but it did bring the whole external audit process into disrepute. A set of accounts that was over a year late had much less credibility.
- Part of the issue had been that for the current series of audits, firms like Grant Thornton had underbid for the work and were struggling to provide the resource to deliver the audits. 2022/23 was the final year of the existing external audit contract and it was likely that bids for future years would be much more than quoted last time around. Audit firms were struggling to recruit staff across the sector as a whole.
- The Kent Finance Officers (S151 Officers at the Kent Authorities) were very concerned about the situation regarding the auditing of local authority accounts and had written to the PSAA. A response was awaited, and he would follow this up.

During the discussion, it was suggested and agreed that the Council should lobby the Local Government Association to seek a solution to the delays being experienced in relation to the delivery of local authority audits.

RESOLVED:

1. That the report be noted.
2. That the Council should lobby the Local Government Association to seek a solution to the delays being experienced in relation to the delivery of local authority audits.

22. DRAFT ANNUAL ACCOUNTS 2021/22

The Senior Finance Manager (Client) introduced his report setting out the unaudited Statement of Accounts for 2021/22 and the External Auditor's risk assessment document. It was noted that:

- The Statement would be subject to external audit, scheduled to commence in August, and it was the intention to bring a final version back to the Committee for approval at its September meeting.
- An updated Narrative Report had been circulated correcting/updating the information contained within the original version.
- The headline messages from the Statement of Accounts could be summarised as follows:

Long-Term assets had increased in value by £22.667m, primarily due to asset acquisitions and expenditure, and revaluation adjustments. The major acquisitions included Maidstone House and the buy-out of Kent County Council's share of the Former Royal Mail Sorting Office. Other major items of

expenditure included the Innovation Centre, housing developments at Springfield Mill and the construction of the new Mote Park Visitor Centre. Cash and Cash Equivalents had increased by £22.689m, which reflected an increased level of short-term deposits held for cashflow purposes as at the balance sheet date.

The increase in Short-Term Creditors of £25.963m was largely a consequence of grant and energy rebate monies still being held from the Covid-19 pandemic and yet to be paid out.

The first Long-Term borrowing (£5.0m) to fund the capital programme was now in place.

The net pension liability had reduced by £4.421m.

In response to questions:

- The Director of Finance and Business Improvement explained that the Council was continuing to add to the portfolio of Maidstone Property Holdings Limited and at some point, it would be necessary to produce consolidated financial statements.
- The Director of Finance and Business Improvement also explained the difference between financial and management accounting and undertook to provide clarification within the Narrative Report that the Council had moved from a Committee to an Executive system of governance in May 2022.

RESOLVED:

1. That, subject to the points raised in the discussion, the unaudited Statement of Accounts for 2021/22, attached as Appendix 2 to the report of the Senior Finance Manager (Client), and the Updated Narrative Report, circulated separately, be noted.
2. That the External Auditor's risk assessment document, attached as Appendix 3 to the report of the Senior Finance Manager (Client), be noted.

23. TREASURY MANAGEMENT ANNUAL REVIEW 2021/22

The Finance Manager introduced his report setting out details of the activities of the Treasury Management function for the 2021/22 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities and in the context of the economic environment over the past 12 months. It was noted that:

- The Treasury Management Strategy Statement was approved by the Council on 24 February 2021, and the key elements were to:
 - Utilise cash balances rather than loan debt to finance the capital programme in the short term and to review borrowing options during the year for longer-term financing;
 - Diversify the current portfolio as much as possible to reduce counterparty risk; and
 - Keep investments short so that they can be called upon for liquidity purposes.
- During 2021/22, the Council's investment balances had ranged between £14.37m and £70.2m. The average investment balance for the year was

£44.5m. The Council held investments totalling £38.75m as at 31 March 2022 which was an increase on the previous year due to slippage within the capital programme and the influx of Government grant funding.

- Investment income for the year totalled £71.8k against a budget of £100k. Investment rates had improved throughout the year as bank rate started to rise, but investments had been kept short term for liquidity purposes.
- Total loan debt at the end of the year was £9m due to £2m being repaid. £5m was transferred to long-term borrowing with the PWLB due to rates being advantageous at the time and to mitigate refinancing and interest rate risk.
- Due to rising interest rates and the need for future borrowing to fund the existing 5-year capital programme, the Council had entered into an agreement with Aviva Life and Pensions UK Ltd to forward borrow £80m to bring some certainty into borrowing rates. The funds would be available during 2023/24 (£40m), 2024/25 (£20m) and 2025/26 (£20m) and the rate had been agreed at 2.89% over a 50-year term. 50-year rates with the PWLB were currently 3.57%.
- All Prudential and Treasury Indicators had been complied with throughout the year.

In response to questions:

- The Finance Manager confirmed that the 21/22 Prudential Code included guidance on ethical investments and would be considered in due course.
- The Director of Finance and Business Improvement explained how the forward borrowing arrangements were accounted for in the financial statements.

RESOLVED:

1. That the review of the financial year 2021/22 in accordance with CIPFA's Code of Practice on Treasury Management and the Prudential and Treasury Indicators be noted.
2. That no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2021/22.

24. **BUDGET STRATEGY - RISK ASSESSMENT UPDATE**

The Director of Finance and Business Improvement introduced his report providing an update on the budget risks facing the Council. It was noted that:

- The Council had delivered a modest revenue budget surplus in 2021/22. A balanced budget had been agreed for 2022/23 based on a Council Tax increase of 2%. Additional provision of £1.3m had been made within the 2022/23 budget for the expected impact of higher inflation on the Council's input costs. At this early stage in the financial year, it was expected that, with this provision, the Council would remain within budget for the year. The future budget position of the Council was heavily dependent on Government policy in relation to the Council Tax referendum limit and its ability to deliver budget savings. Council Tax increases in future years might continue to be

capped at less than the rate of inflation which could result in additional savings being required due to a reduced budget.

- There were two main risks associated with the capital programme: the availability of funding and the impact of inflation and supply blockages.
- Currently, funding for the capital programme was readily available: in the short-term through the market in borrowing and lending between local authorities and over the longer-term through the Public Works Loan Board (PWLB). There was no indication that the Government would withdraw this facility for local authorities so long as the lending was not for purely commercial investment purposes. However, to mitigate the risk of dependency on the PWLB, and in anticipation of higher interest rates, the Council had committed to forward borrowing of £80m from a private sector lender, allowing it to lock in interest rates as at March 2022 for a portion of its debt.
- Over time, the impact of higher input costs should be reflected in higher returns from capital investment and increases in the value of capital assets. However, the Council was likely to see severe budget pressures in the short-term at the level of individual capital projects, requiring additional funding to be transferred within the overall capital budget envelope and reducing the overall amount of funding available. These risks were likely to be exacerbated by Russia's invasion of the Ukraine and the consequent impact on energy prices.

During the discussion, it was suggested that risk P relating to the financial impact of a resurgence of COVID-19 should be qualified on the basis that the Government might not be prepared to mitigate that impact in future.

RESOLVED: That subject to the point raised in the discussion, the updated risk assessment of the Budget Strategy, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted.

25. DURATION OF MEETING

6.35 p.m. to 8.45 p.m.

Note: The Committee adjourned from 6.45 p.m. to 6.55 p.m. for technical reasons.

2022/23 WORK PROGRAMME

	Committee	Month	Origin	CLT to clear	Lead	Report Author
Data Protection Action Plan - Progress Report	AGS	14-Nov-22	Officer Update	No	Angela Woodhouse	Anna Collier
Annual Complaints Report 2021/22	AGS	14-Nov-22	Governance	Yes	Angela Woodhouse	Anna Collier/L Connett
Annual Governance Statement Mid-Year Update	AGS	14-Nov-22	Governance	Yes	Angela Woodhouse	Angela Woodhouse
Internal Audit Interim Report 2022/23	AGS	14-Nov-22	Governance	No	TBA	TBA
Treasury Management Mid-Year Review 2022/23	AGS	14-Nov-22	Governance	No	Mark Green	John Owen
External Auditor's Progress Report and Sector Update	AGS	14-Nov-22	Governance	No	Mark Green	Paul Holland
Budget Strategy Risk Assessment Update	AGS	14-Nov-22	Officer Update	No	Mark Green	Mark Green
Update on Kent Model Code of Conduct	AGS	16-Jan-23	Officer Update	No	Claudette Valmond	Robin Harris
Housing Benefit Subsidy Claim 2021/22	AGS	16-Jan-23	Governance	No	Georgia Hawkes	Zoe Kent
Fraud and Compliance Team Update	AGS	16-Jan-23	Officer Update	No	Georgia Hawkes	Zoe Kent
Treasury Management, Investment and Capital Strategies 2023/24	AGS	16-Jan-23	Strategy Update	No	Mark Green	John Owen
External Auditor's Annual Audit Letter	AGS	16-Jan-23	Governance	No	Mark Green	Paul Holland
External Auditor's Progress Report and Sector Update	AGS	16-Jan-23	Governance	No	Mark Green	Paul Holland
Budget Strategy Risk Assessment Update	AGS	16-Jan-23	Officer Update	No	Mark Green	Mark Green
Code of Conduct Matters - Six Month Update	AGS	13-Mar-23	Officer Update	No	Claudette Valmond	Gary Rowland

2022/23 WORK PROGRAMME

	Committee	Month	Origin	CLT to clear	Lead	Report Author
Annual Risk Management Report 2022/23	AGS	13-Mar-23	Governance	Yes	Alison Blake	Alison Blake
Internal Audit Charter Update	AGS	13-Mar-23	Governance	No	TBA	TBA
Internal Audit and Assurance Plan 2023/24	AGS	13-Mar-23	Governance	No	TBA	TBA
External Audit Plan 2022/23	AGS	13-Mar-23	Governance	No	Mark Green	Paul Holland
External Auditor's Progress Report and Sector Update	AGS	13-Mar-23	Governance	No	Mark Green	Paul Holland
Budget Strategy Risk Assessment Update	AGS	13-Mar-23	Officer Update	No	Mark Green	Mark Green

Agenda Item 12

Audit, Governance & Standards Committee

27 September 2022

Complaints Received Under the Members' Code of Conduct

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Claudette Valmond – Interim Head of Legal Partnership
Lead Officer and Report Author	Gary Rowland – Senior Legal Adviser, Corporate Governance
Classification	Public
Wards affected	All

Executive Summary

The report provides an update to the Committee on complaints under the Members' Code of Conduct previously reported as under consideration and received in the period 1 March to 31 August 2022.

This report makes the following recommendations to this Committee:

1. That the contents of the report be noted.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	27 September 2022

Complaints Received Under the Members' Code of Conduct

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	High standards of conduct are essential amongst Members in delivering the Council's priorities. The Code of Conduct complaints procedure supports this.	Senior Legal Adviser – Corporate Governance
Cross Cutting Objectives	No impact.	Senior Legal Adviser – Corporate Governance
Risk Management	The report is presented for information only and has no risk management implications. An effective and robust Code of Conduct complaints procedure minimises the risk of Member misconduct and is part of an effective system of governance.	Senior Legal Adviser – Corporate Governance
Financial	There are no direct financial implications; however, should it be necessary to appoint external Independent Investigators, the cost of this will be met by the Borough Council.	Senior Legal Adviser – Corporate Governance
Staffing	The complaints procedure is dealt within the remit of the Monitoring Officer with input from the Legal team as required.	Senior Legal Adviser – Corporate Governance
Legal	The requirements of the Localism Act 2011 with regards to the Code of Conduct complaints procedure are set out within the report. The reporting process ensures that the Committee continues its oversight of the Code of Conduct as required by the Constitution.	Senior Legal Adviser – Corporate Governance
Privacy and Data Protection	No personal information is provided as part of the report.	Senior Legal Adviser – Corporate Governance
Equalities	Any potential to disadvantage or discrimination against different groups within the community should be overcome within the adopted complaints procedure.	Senior Legal Adviser – Corporate Governance
Public Health	None identified in the report.	Senior Legal Adviser – Corporate Governance

Crime and Disorder	None identified in the report.	Senior Legal Adviser – Corporate Governance
Procurement	None identified in the report.	Senior Legal Adviser – Corporate Governance
Biodiversity and Climate Change	None identified in the report.	Senior Legal Adviser – Corporate Governance

2. INTRODUCTION AND BACKGROUND

- 2.1 It is a requirement under the Localism Act 2011 that all Councils adopt a Code of Conduct and that the Code adopted must be based upon the Nolan Principles of Conduct in Public Life. The current Members’ Code of Conduct (“the Code”) for Maidstone Borough Council is set out in the Constitution.
- 2.2 The Localism Act 2011 requirement to adopt a Code of Conduct also applied to all Parish Councils. Most Parish Councils in the Maidstone area have adopted a similar Code of Conduct to the Borough Council, based on a Kent wide model. A few Parish Councils have adopted their own particular Code.
- 2.3 Under the Localism Act 2011 Maidstone Borough Council is responsible for dealing with any complaints made under the various Codes of Conduct throughout the Maidstone area.
- 2.4 The Constitution stipulates that oversight of Code of Conduct complaints is part of the remit of the Audit, Governance and Standards Committee.
- 2.5 As part of the Committee’s oversight function it is agreed that the Monitoring Officer will provide reports on complaints to the Audit, Governance & Standards Committee. It should be noted that the Localism Act 2011 repealed the requirement to publish decision notices; therefore, in providing the update to the Committee the names of the complainant and the Councillor complained about are both kept confidential in accordance with the Data Protection Act 2018. Whilst personal data is kept confidential, the report now highlights why those complaints that were rejected, did not establish a breach of the Code as requested during the meeting in September 2021.

- 2.6 At the previous Committee on 14 March 2022, it was reported that 5 Parish/Town Councillor complaints were being considered. These have now been concluded as follows:

Complaint 1 - Allegation

- you must not prevent another person from gaining access to information to which that person is entitled by law.

No breach was established. Complaint met the following Local Assessment Criteria:

1.4(f) – the complaint is relatively minor and dealing with the complaint would have a disproportionate effect on both public money and officers’ and Members’ time; and

1.4(i) – the complaint is such that it is unlikely that an investigation will be able to come to a firm conclusion on the matter, e.g., where there is no firm evidence on the matter.

Complaint 2 - Allegations

- you must behave in such a way that a reasonable person would regard as respectful; and
- you must not bully or harass any person.

A breach was established, and the Monitoring Officer concluded that the complaint should be resolved by way of informal resolution. The following actions were recommended:

- 1. In respect of comments made by the subject member, a formal apology should be made in writing;*
- 2. The Clerk should arrange suitable training for the subject member regarding parish procedures and*
- 3. Consideration should be given as to whether mediation between the parties would be appropriate.*

Complaint 3 - Allegations

- you must behave in such a way that a reasonable person would regard as respectful;
- you must use the resources of the Council in accordance with its requirements;
- you must not do anything that compromises, or is likely to compromise, the impartiality or integrity of those who work for, or on behalf of the Council; and
- you must not conduct yourself in a manner which could reasonably be regarded as bringing your position or the Council into disrepute.

A breach was established and the Monitoring Officer concluded that the complaint should be resolved by way of informal resolution. The following actions were recommended:

- 1. The Parish Council should work with appropriate organisations such as KALC with an aim to resolve differences and improve relationships within the Council, which may involve mediation;*
- 2. The Parish Council should review its policies, procedures and wider governance to ensure that it is working effectively; and*
- 3. The Parish Council should arrange for training to be carried out for the Council as a whole, which may include roles and responsibilities, the Code of Conduct, working as a team and strategy development.*

Complaint 4 - Allegations

- you must not bully any person;
- you must not do anything that compromises, or is likely to compromise, the impartiality or integrity of those who work for, or on behalf of, the Authority;
- you must not conduct yourself in a manner which could reasonably be regarded as bringing your office or the Authority into disrepute; and
- you must not use or attempt to use your position as a Councillor improperly to confer on or secure for yourself or any other person, an advantage or disadvantage.

No breach was established. Complaint met the following Local Assessment Criteria:

1.4(d) – the complaint is malicious, trivial, politically motivated or ‘tit-for tat’; and

1.4(f) – the complaint is relatively minor and dealing with the complaint would have a disproportionate effect on both public money and officers’ and Members’ time.

Complaint 5 - Allegation

- you must not bully any person.

A breach was established and the Monitoring Officer concluded that the complaint should be resolved by way of informal resolution. The following actions were recommended:

- 1. That the subject member considers his behaviour, tone and manner when corresponding with the Parish Council and when in meetings.*
- 2. To take part in any mediation or conciliation proposals put forward by the Parish Council.*
- 3. The Parish Council should consider revisiting their policies to ensure they are fit for purpose.*

Since the last report, 4 new complaints have been received against parish/town councillors. These complaints have been considered by the Monitoring Officer and have been concluded as follows:

Complaint 1 – Allegations

- you must not bully any person;
- you must not intimidate or attempt to intimidate any person who is or is likely to be a complainant, a witness, or involved in the administration of any investigation or proceedings, in relation to an allegation that a Member (including yourself) has failed to comply with this Code;
- you must not do anything that compromises, or is likely to compromise, the impartiality or integrity of those who work for, or on behalf of, the Authority;
- you must not conduct yourself in a manner which could reasonably be regarded as bringing your office or the Authority into disrepute; and
- you must not use or attempt to use your position as a Member improperly to confer on or secure for yourself or any other person, an advantage or disadvantage.

A breach was established and the Monitoring Officer concluded that the complaint should be resolved by way of informal resolution. The following actions were recommended:

- 1. The Parish Council should work with appropriate organisations such as the Kent Association of Local Councils to resolve differences and improve relationships within the Council as a whole. This may include a process of formal mediation between identified individuals as well as more informal work with the whole Council;*
- 2. The Parish Council should review its policies, procedures and wider governance to ensure that it is working effectively and underlying issues are being addressed; and*
- 3. The Parish Council arrange for training to be carried out in respect of roles and responsibilities, the Code of Conduct, working as a team and strategy development.*

Complaint 2 – Allegations

- you must not bully any person;
- you must not intimidate or attempt to intimidate any person who is or is likely to be a complainant, a witness, or involved in the administration of any investigation or proceedings, in relation to an allegation that a Member (including yourself) has failed to comply with this Code; and
- you must not conduct yourself in a manner which could reasonably be regarded as bringing your office or the Authority into disrepute.

No breach was established. The complaint met the following Local Assessment Criteria:

1.4(f) – the complaint is relatively minor and dealing with the complaint would have a disproportionate effect on both public money and officers’ and Members’ time; and

1.4(i) - the complaint is such that it is unlikely that an investigation will be able to come to a firm conclusion on the matter, e.g., where there is no firm evidence on the matter.

Complaint 3 – Allegations

- you must not bully any person;
- you must not intimidate any person who is likely to be a complainant, a witness, or involved in the administration of any investigation or proceedings, in relation to an allegation that a Member (including yourself) has failed to comply with this Code; and
- you must not conduct yourself in a manner which could reasonably be regarded as bringing your office or the Authority into disrepute.

The complainant subsequently withdrew their complaint and as such, no further action was taken.

Complaint 4 – Allegation

- you must not bully any person.

No breach was established. The complaint met the following Local Assessment Criteria:

1.4(k) - the complaint is about a person who is no longer a Borough or Parish Councillor or Co-opted Member.

- 2.7 At the time of writing this report, there are currently no outstanding complaints.
-

3. AVAILABLE OPTIONS

- 3.1 The Committee could decide that they no longer wish to receive the updates on complaints under the Code of Conduct. This is not recommended as it is part of the Committee’s general oversight function.
- 3.2 That the Committee note the update on complaints received under the Members’ Code of Conduct.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Option 3.2 that the Committee note the update on complaints received under the Members’ Code of Conduct is recommended as it is important that the Committee continue to oversee the complaints received.
-

5. RISK

5.1 This report is presented for information only and has no risk management implications.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 Members of the Audit, Governance & Standards Committee and the Independent Person will be consulted on individual complaints, as and when necessary, in accordance with the relevant complaints' procedure.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 As the report is for information only, no further action will be taken.

8. REPORT APPENDICES

None.

9. BACKGROUND PAPERS

None.

Agenda Item 13

Audit, Governance and Standards Committee

27 September 2022

Audit, Governance and Standards Committee Annual Report

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service	Alison Blake – Interim Head of Internal Audit
Lead Officer and Report Author	Andy Billingham – Interim Audit Manager
Classification	Public
Wards affected	All

Executive Summary

Based on the activity during the year, the Audit, Governance and Standards Committee can demonstrate it has appropriately and effectively fulfilled its duties during 2021/22. The report details how the Audit, Governance & Standards Committee has effectively discharged those duties and sets out the achievements of the Committee during the year.

Purpose of Report

Decision

This report makes the following recommendations to this Committee:

1. That the Audit, Governance and Standards Committee Annual Report for 2021/22 is agreed.
2. That the Council be recommended to note the Audit, Governance and Standards Committee Annual Report 2021/22 which demonstrates how the Committee discharged its duties during the last Municipal Year.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	27 September 2022
Full Council	28 September 2022

Audit, Governance and Standards Committee Annual Report

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We present this report for decision. The Audit, Governance & Standards Committee's work supports all Council activity and the wider Corporate Priorities in evaluating governance.	Alison Blake – Interim Head of Audit Partnership
Cross Cutting Objectives		
Risk Management		
Financial	There are no additional costs or savings associated with this proposal.	Mark Green – Director of Finance & Business Improvement
Staffing	There are no staffing implications associated with this proposal	Alison Blake – Interim Head of Audit Partnership
Legal	There are no legal implications identified in the report. The report demonstrates that measures are in place to ensure good governance arrangements which enable the Council to meet statutory requirements.	Interim Team Leader (Contentious and Corporate Governance)
Privacy and Data Protection	There are no direct privacy or data protection implications associated with this report.	Policy and Information Team
Equalities	There are no direct equalities implications associated with this report.	Equalities & Communities Officer
Public Health	There are no direct public health implications associated with this report.	Alison Blake – Interim Head of Audit Partnership
Crime and Disorder	There are no direct crime and disorder implications associated with this report.	Alison Blake – Interim Head of Audit Partnership

Procurement	There are no direct procurement implications associated with this report.	Mark Green – Director of Finance & Business Improvement
Biodiversity and Climate Change	There are no direct biodiversity and climate change implications associated with this report.	Alison Blake – Interim Head of Audit Partnership

2. INTRODUCTION AND BACKGROUND

- 2.1 The Audit, Governance & Standards Committee is required to monitor audit activity (internal and external), review and comment on the effectiveness of the Council’s regulatory framework and review and approve the Council’s annual statements of accounts and scrutinise associated strategy and policy. This report sets out how this has been achieved during 2021/22.

3. AVAILABLE OPTIONS

- 3.1 The production and presentation of an annual report is required by the Committee’s terms of reference. Therefore, no other alternative options can be recommended.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 This report provides the Council with assurance that important governance, risk and standards issues are monitored and addressed.
- 4.2 Our recommendation is for the Committee to agree the Audit, Governance & Standards Committee Annual Report, subject to any comments and amendments. In accordance with the Terms of Reference, that the Chairman of the Audit, Governance & Standards Committee then provides the report to a meeting of full Council setting out how the Committee has discharged its duties.

5. RISK

- 5.1 The risks associated with this proposal, including the risks if the Council does not act as recommended, have been considered in line with the Council’s Risk Management Framework. We are satisfied that the risks associated are within the Council’s risk appetite and will be managed as per the Policy.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 This report has been compiled through consultation between Officers and the Chairman of the Audit, Governance & Standards Committee.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 The report will be presented to Full Council in accordance with this Committee's Terms of Reference.

8. REPORT APPENDICES

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

- Appendix 1: Audit, Governance & Standards Committee Annual Report
-

9. BACKGROUND PAPERS

None

Audit, Governance & Standards Committee

Annual Report

September 2022



Introduction by Chairman of Audit, Governance and Standards Committee

As the Chair of the Audit, Governance and Standards Committee, it is my pleasure to introduce the annual report, providing an overview of the Committee's activity during the Municipal Year 2021/22.

The Council continues to face challenges from the impact of the Covid 19 pandemic as well as the cost-of-living crisis and rising inflation brought on by the war in Ukraine. As a Committee, we have maintained our focus on the issues facing the Council from a risk, control and governance perspective. This report looks back and gives us opportunity to reflect on the activity and achievements of the Committee during the Municipal Year 2021/22.

The Committee has discharged its responsibility to provide independent assurance on the adequacy of the Council's risk management framework and the associated control environment. We have also provided robust scrutiny and challenge of the Authority's financial performance.

During 2021/22 the Committee met five times and I was pleased to note, among the highlights, consideration of the Council's risk management processes and a positive opinion on the Council's control and governance from our internal auditors.

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



Councillor Alan Bartlett – Audit, Governance and Standards Committee Chairman

Purpose of the Committee

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

Audit Committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management. The purpose of an Audit Committee is to provide those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

At Maidstone, the role of the Committee extends further than this. In 2015 the Committee was expanded to incorporate some functions previously undertaken by the Standards Committee. Specifically, this expanded role means that the Committee also consider Member conduct and complaints. The Committee's stated purpose is:

The promotion and maintenance of Councillor and Officer conduct within the Council, adoption and reviewing the Council's Annual Governance Statement; independent assurance of the adequacy of the financial and risk management framework and the associated control environment, independent review of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting.

The Committee is independent from management and other Committees, this is important as it ensures that duties can be discharged in line with the agreed Terms of Reference (attached as an appendix to this report). This includes rights of access and reporting lines direct to statutory officers, the Head of Audit Partnership and appointed external auditors where appropriate.

The Committee is not a substitute for the management function of internal audit, risk management, governance, or any other sources of assurance. The role of the Committee is to examine these functions and to offer views and recommendations on the way in which these functions are managed and conducted.

The production and presentation of an annual report is required by the Committee's Terms of Reference. The purpose of this report is to outline where the Committee has gained assurance during the year, particularly over areas of governance, risk management, Standards, and internal control.

Membership & Meetings

During 2021/22 the Audit, Governance and Standards Committee was comprised of nine Members (plus two non-voting Parish Councillors appointed by the Council for a three-year term of office) and met five times.

The Committee is supported throughout the year by senior officers and managers of the Council who are regularly present. In addition, the Council's External Auditors (Grant Thornton) regularly attend meetings of the Committee.

The following table outlines Member and Officer attendance at 2021/22 Audit, Governance and Standards Committee meetings.

Member	Role	Audit, Governance and Standards Committee Meeting Date				
		28-July-21	28-Sep-21	15-Nov-21	17-Jan-22	14-Mar-22
Cllr Alan Bartlett	Member	Present	Present	Present	Present	Present
Cllr Anne Brindle	Member	Present	Present	Present	Present	Present
Cllr Martin Cox	Member	Present	Present	Present	n/a	n/a
Cllr Mike Cumming	Member	Present	Present	Present	Present	Apologies
Cllr Dan Daley	Member	Present	Present	Present	Apologies	Absent
Cllr Nikki Fissenden	Member	Present	Present	Present	Present	Absent
Cllr John Perry	Member	Present	Present	Present	Present	Apologies
Cllr Janetta Sams	Member	Apologies	Apologies	Apologies	Present	Present
Cllr Ziggy Trzebinski	Member	Present	Apologies	Apologies	Present	Present
Cllr Nick de Wiggondene-Sheppard	Member	n/a	n/a	n/a	Apologies	Absent
Peter Coulling	Parish Representative	Present	Present	Present	Present	Present
Peter Titchener	Parish Representative	Apologies	Present	Apologies	Present	Present
Cllr Steve Munford	Substitute Member	Present	Present	n/a	n/a	n/a
Cllr Gordon Newton	Substitute Member	n/a	n/a	Present	n/a	n/a
Cllr Patrik Garten	Substitute Member	n/a	Present	n/a	n/a	Present
Cllr Jonathan Pule	Substitute Member	n/a	n/a	n/a	n/a	Present

Officer	Audit, Governance and Standards Committee Meeting Date				
	28-July-21	28-Sep-21	15-Nov-21	17-Jan-22	14-Mar-22
Principal Solicitor	Present	Present	n/a	n/a	n/a
Head of Policy, Communications and Governance	Present	n/a	Present	n/a	n/a

Officer	Audit, Governance and Standards Committee Meeting Date				
	28-July-21	28-Sep-21	15-Nov-21	17-Jan-22	14-Mar-22
Team Leader – Contentious and Corporate Governance	n/a	n/a	n/a	n/a	Present
Senior Lawyer – Corporate Governance	n/a	Present	n/a	n/a	Present
Head of Audit Partnership	n/a	Present	Present	Present	Present
Deputy Head of Audit Partnership	n/a	n/a	n/a	n/a	Present
Audit Manager	Present	Present	n/a	n/a	Present
Director of Finance and Business Improvement	Present	Present	Present	Present	Present
Head of Finance	Present	Present	n/a	n/a	n/a
Senior Finance Manager	Present	n/a	Present	n/a	n/a
Finance Manager	Present	n/a	Present	Present	n/a
External Auditor – Grant Thornton	Present	n/a	Present	Present	Present
Corporate Insight, Communities and Governance Manager	n/a	n/a	Present	n/a	n/a

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

Activity

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

July 2021	September 2021	November 2021	January 2022	March 2022
Revision of the Covert Surveillance and Access to Communications Data Policy and Guidance Note	Complaints Received Under the Members Code of Conduct	Annual Complaints Report 20/21	External Auditor's Progress Report and Sector Update	Complaints Received Under the Members Code of Conduct
Annual Governance Statement and Local Code of Corporate Governance 20/21	External Auditor's Audit Progress Report	Data Protection Update	Treasury Management, Investment and Capital Strategies 22/23	Statement of Account 20/21
Annual Internal Audit Report and Opinion 20/21	Annual Accounts 20/21	Annual Governance Statement – Mid Year Update	External Audit Procurement	Risk Management Annual Report 21/22
Financial Management Code	Internal Audit Charter	Interim Internal Audit and Assurance Report 21/22	Budget Strategy – Risk Assessment Update	Internal Audit and Assurance Report 22/23
Annual Accounts 20/21	Audit, Governance & Standards Committee Annual Report 20/21	Treasury Management Mid-Year Review 21/22		Budget Strategy – Risk Assessment Update
Treasury Management Annual Review 20/21	Budget Strategy – Risk Assessment Update	Statement of Accounts 20/21		
Budget Strategy – Risk Assessment Update		Budget Strategy – Risk Assessment Update		

Key

Internal Audit Activity	External Audit Activity	Finance Activity	Standards Activity	Governance Activity
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Sources of Assurance

The Audit, Governance and Standards Committee have drawn on a variety of sources of assurance to fulfil their responsibilities. During 2021/22 assurance from the following sources was considered:

Finance Activity
The Committee reviewed and provided challenge on the annual accounts.
The Committee considered and reviewed the Financial Management Code, Treasury Management and Budget strategies.
Internal Audit Activity
The Council received an unqualified Annual Opinion from the Head of Internal Audit. This opinion considers the overall adequacy and effectiveness of the authority's framework of governance, risk management and control arrangements.
Both the updated 2021/22 and the 2022/23 audit plans included detail of audit assurance work for the year. The Committee were given the opportunity to comment on the work of internal audit prior to endorsing the plan for delivery.
Governance Activity
The Committee reviewed the Annual Governance Statement which supported the overall conclusion of the Head of Internal Audit Opinion. The Committee specifically gained assurance from this document as it explains the processes and procedures in place to enable the Council to carry out its functions effectively.
The Committee provided independent review of the Data Protection action plan in conjunction with proposed changes in Data Protection legislation.
The annual risk management report provided an overview of the effectiveness of the Council's risk management framework and the controls in place to manage corporate and operational risks.
External Audit Activity
The Committee provided effective challenge to the External Auditors and gained assurance from the reports and updates provided by Grant Thornton during the year.
Standards Activity
The Committee reviewed complaints received under the Members' Code of Conduct and provided challenge around a revised Code.

Dealing with complaints about Council Members

It is a requirement under the Localism Act 2011 that all Councils adopt a Code of Conduct and that the Code adopted must be based upon the Nolan Principles of Conduct in Public Life. The current Members' Code of Conduct ("the Code") for Maidstone Borough Council is set out in the Constitution.

The Localism Act 2011 requirement to adopt a Code of Conduct also applied to all Parish Councils. Most Parish Councils in the Maidstone area have adopted a similar Code of Conduct to the Borough Council, based on a Kent wide model. A few Parish Councils have adopted their own Code.

Under the Localism Act 2011 Maidstone Borough Council is responsible for dealing with any complaints made under the various Codes of Conduct throughout the Maidstone area.

The Constitution stipulates that oversight of Code of Conduct complaints is part of the remit of the Audit, Governance and Standards Committee.

During the year ending 31 March 2022, 10 new Member complaints were received. Five of the complaints related to a Borough Councillor. Four of these complaints were investigated and no breach of the Code was established, and one complaint failed to meet the preliminary criteria for investigation.

The remaining five complaints related to parish councillors. Four of the complaints established no breach of the code and one complaint is being considered by the Monitoring Officer.

Conclusion

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

The Audit Committee can demonstrate that it has appropriately and effectively fulfilled its duties during 2021/22 as set out in the respective minutes.

Appendix I – Terms of Reference & Responsibilities

Audit Activity

- a) To consider the Head of Internal Audit Partnership's annual report and opinion, and a summary of Internal Audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- b) To consider reports dealing with the management and performance of Internal Audit Services, including consideration and endorsement of the Strategic Internal Audit Plan and any report on agreed recommendations not implemented within a reasonable timescale; and the Internal Audit Charter.
- c) To consider the External Auditor's Annual Audit Letter, relevant reports, and any other report or recommendation to those charged with governance; and ensure that the Council has satisfactorily addressed all issues raised. To comment on the scope and depth of external audit work and to ensure it gives value for money.
- d) To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies 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 Policy and Resources Committee or Council.
- e) Consider and review the effectiveness of the Treasury Management Strategy, Investment Strategy, Medium Term Financial Strategy, Annual Report and Mid-Year review and make recommendations to the Policy and Resources Committee and Council.
- f) Recommend and monitor the effectiveness of the Council's Counter-Fraud and Corruption Strategy.

Governance

- a) To maintain a financial overview of the operation of Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.
- b) In conjunction with Policy and Resources Committee to monitor the effective development and operation of risk management and corporate governance in the Council to ensure that strategically the risk management and corporate governance arrangements protect the Council.
- c) To monitor Council policies on 'Raising Concerns at Work' (Whistleblowing') and the 'Anti-fraud and corruption' strategy.
- d) To oversee the production of the authority's Annual Governance Statement and to agree its adoption.
- e) The Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice and high standards of ethics and probity. This Committee will receive the annual review of the Local Code of Corporate Governance and may make recommendations to Policy and Resources Committee for proposed amendments, as necessary.
- f) To consider whether safeguards are in place to secure the Council's compliance with its own and other published standards and controls.

Audit, Governance and Standards Committee

**27 September
2022**

External Audit 2020/21

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Mark Green, Director of Finance and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

This report provides the committee with an update on progress with the audit of the 2020/21 financial statements.

Purpose of Report

Noting.

This report makes the following recommendations to this Committee:

1. That the report be noted.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	27 September 2022

External Audit 2020/21

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims in demonstrating accountability and value for money.	Director of Finance and Business Improvement
Cross Cutting Objectives	There is no specific implication, however sound financial management does support the delivery of the Council's cross cutting objectives.	Director of Finance and Business Improvement
Risk Management	This is detailed within section 5.	Director of Finance and Business Improvement
Financial	The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2021, and details the council's assets, liabilities and reserves at this date. The work of the external auditor aims to provide independent assurance over this document.	Director of Finance and Business Improvement
Staffing	No implications identified.	Director of Finance and Business Improvement
Legal	Under section 151 of the Local Government Act (LGA 1972), the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including advising on the corporate financial position and providing financial information. It is a function of the Audit, Governance and Standards Committee to review and approve the annual statement of accounts and to consider if appropriate accounting policies have been followed and whether there are concerns arising from the	Senior Lawyer Corporate Governance

	financial statements or from the audit that need to be brought to the attention of the Policy and Resources Committee or Council.	
Privacy and Data Protection	No implications identified.	Director of Finance and Business Improvement
Equalities	No implications identified.	Director of Finance and Business Improvement
Public Health	No implications identified.	Director of Finance and Business Improvement
Crime and Disorder	No implications identified.	
Procurement	No implications identified.	Director of Finance and Business Improvement
Biodiversity and Climate Change	The implications of this report on biodiversity and climate change have been considered and there are no direct implications on biodiversity and climate change.	Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

- 2.1 In accordance with Accounts and Audit Regulations, the Council was required to have its audited Statement of Accounts for the 2020/21 financial year approved by the Audit, Governance and Standards Committee by 30 September 2021. Draft accounts were prepared by officers for the meeting of the Committee on 28 September 2021.
- 2.2 The external audit of the accounts by Grant Thornton was in progress at the time of publishing the agenda for this meeting. Unfortunately, after the agenda was published, officers were advised by Grant Thornton that although substantial progress had been made with the audit, it would not be possible to present an audit findings report to the Committee.
- 2.3 It was noted that there were no significant practical implications from failing to meet the 30 September deadline, such as fines or penalties, but protracted delays could result in operational challenges for the officers

involved with the audit, as assistance for the auditors would impinge on other work.

- 2.4 It was agreed by the Committee that approval of the accounts be deferred to the next meeting of the Committee, scheduled to be held on 15 November 2021.
- 2.5 At the meeting of the Committee on 15 November 2021, the Statement of Accounts for 2020/21 was presented again. A number of minor amendments to the draft Statement that was presented in September had been incorporated in the Statement. None of these changes were significant and there had been no changes to the primary statements other than some presentational amendments.
- 2.6 Unfortunately, Grant Thornton had still not completed their audit work and were unable to provide an opinion on the accounts. However, in an 'Audit Findings' report, presented to the Committee, they stated that 'our work is substantially complete'. They also stated that they had identified no material adjustments that would impact the Council's General Fund balance, and they anticipated issuing an unmodified audit report.
- 2.7 Grant Thornton noted in their Audit Findings report that the cost of assets under construction at Brunswick Street and Union Street should be reclassified from Property, Plant and Equipment to Inventory. This represented a change in classification which would have no overall impact on the accounts. The Council agreed to reclassify the assets as requested and an updated version of the Statement of Accounts was subsequently sent to Grant Thornton.
- 2.8 At the next meeting of the Committee on 17th January 2022, Grant Thornton noted that they had received the revised set of accounts and stated that they were engaging with the finance team to finalise work on the remaining testing and quality review queries, albeit that the list of queries had only been sent to the Council on the day of the meeting.
- 2.9 In their report to the Committee, Grant Thornton stated that they anticipated giving an audit opinion by 31 January 2022. This did not happen, but the Grant Thornton partner assured the Director of Finance and Business Improvement that the audit report would be ready for the next meeting of the Audit Governance and Standards Committee on 14th March 2022.
- 2.10 In the event, the audit report was not ready for the meeting on 14th March. The Grant Thornton partner, Paul Dossett, attended the meeting and described staffing issues that the firm was facing. He explained that the team which had started the audit of the Council's accounts was no longer working on local government audits, which had delayed progress.
- 2.11 The Council continued to press Grant Thornton to complete their audit work. Following an exchange of e-mails with the partner, it was agreed on 8th April that the audit manager would work solely on Maidstone's accounts until they were complete. The manager then produced a further set of queries for the Council to answer and we responded to these queries.

- 2.12 It was hoped that the completed accounts could be brought to the Committee meeting on 27th July, but in a communication with the Director of Finance and Business Improvement on 12th July, Grant Thornton stated: 'A number of amendments to the financial statements have been required in respect of the accounting treatment for the Brunswick Street and Union Street housing projects. We are currently discussing these amendments with the Council. Subject to completion of the outstanding work we anticipate giving an unqualified opinion on the 2020/21 financial statements'.
- 2.13 It should be noted that the Council recognised that the accounting treatment of these transactions was potentially contentious at the time of the original audit in August 2021, and we set out our proposed treatment at the time. We amended the accounts in response to Grant Thornton's request in November 2021 that these projects be reclassified from Property, Plant and Equipment to Inventory. We have been ready throughout the audit process to accept Grant Thornton's proposed treatment of these transactions.
- 2.14 Grant Thornton have expressed an aspiration to complete the 2020/21 accounts audit in time for the meeting on 27th September. However, at the time of writing, the signed audit opinion has not been received.
- 2.15 Mr Dossett has been invited to this meeting so that members may raise any questions.
-

3. AVAILABLE OPTIONS

- 3.1 Committee members are asked to note this report.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The report is for noting only.
-

5. RISK

- 5.1 Risks have been considered with reference to the Council's risk management framework. As explained in paragraph 2.3, there are no direct financial or regulatory risks arising from failing to complete the audit. However, there is a potential reputational risk for the Council arising from delays in signing the accounts.
-

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Members of the public have legal rights to inspect, ask questions about and challenge items in the Council's accounts. Details of this were published on the Council's website and the statutory period ended on 10 September 2021. One enquiry was received regarding Covid Grants and rent deferrals, and this has been dealt with.
- 6.2 Reports have been brought to the Committee regularly advising the position with the 2020/21 accounts audit. Members have expressed their concerns about the delay in completing the audit.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 To be discussed at the meeting.

8. REPORT APPENDICES

None.

9. BACKGROUND PAPERS

None.

Audit, Governance & Standards Committee

**27 September
2022**

External Auditor's Audit Plan 2021/22

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Paul Holland, Senior Finance Manager (Client)
Classification	Public
Wards affected	All

Executive Summary

This report from the Council's External Auditor, Grant Thornton, sets out the planned approach to delivering the audit of the 2021/22 financial statements and value for money conclusion.

Representatives from Grant Thornton will be in attendance at the meeting to present their report and respond to questions.

Purpose of Report

Noting

This report makes the following recommendations to this Committee:

1. That the external auditor's audit plan, attached at Appendix 1, be noted.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	27 September 2022

External Auditor's Audit Plan 2021/22

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's ability to discharge its responsibilities in relation to the 2021/22 financial statements audit and value for money conclusion.	Director of Finance and Business Improvement
Cross Cutting Objectives	The recommendations set out above will not have any material impact on the cross-cutting objectives.	Director of Finance and Business Improvement
Risk Management	This report is presented for information only and has no decisions which give rise to risk management implications.	Director of Finance and Business Improvement
Financial	The scale fee published by Public Sector Audit Appointments Ltd is £41,666. However, the final audit fee for 2021/22 from Grant Thornton is £64,666 including additional fees for extra work they are required to do, including the Value for Money work.	Director of Finance and Business Improvement
Staffing	No implications identified.	Director of Finance and Business Improvement
Legal	The Local Audit and Accountability Act 2014 sets out the framework for audit of local authorities.	Interim Team Leader (Contentious and Corporate Governance)
Privacy and Data Protection	None identified.	Director of Finance and Business Improvement
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Equalities & Communities Officer

Public Health	No implications identified.	Director of Finance and Business Improvement
Crime and Disorder	No implications identified.	Director of Finance and Business Improvement
Procurement	No implications identified.	Director of Finance and Business Improvement
Biodiversity and Climate Change	There are no implications on biodiversity and climate change.	Biodiversity and Climate Change Officer

2. INTRODUCTION AND BACKGROUND

2.1 The external auditor produces an annual audit plan for the financial statements audit opinion and value for money conclusion. As in previous years this work will be undertaken by Grant Thornton, the appointed auditors. A copy of the plan, which includes the outcomes of work undertaken to date, is attached at Appendix 1.

3. AVAILABLE OPTIONS

3.1 As the committee charged with responsibility for overseeing the financial reporting process, the Audit, Governance and Standards Committee is asked to consider and note this report. The committee could choose not to consider this report; however, this option is not recommended since the report is intended to assist the committee in discharging its responsibilities in relation to external audit and governance.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The committee is asked to note this report. The report details the external auditor's plan for ensuring the delivery of the audit opinion and value for money conclusion by the end of December 2022 and notes the significant risks identified, the results of the work undertaken to date and the anticipated audit fee. It is considered appropriate for the committee to receive this information at this time.

4.2 The scale audit fee set by Public Sector Audit Appointments Ltd (PSAA) for 2021/22 is £41,666 for Maidstone Borough Council. However, the total fee

is £64,666, including a further £14,000 for impact of revised accounting standards and requirements, and £9,000 for the Value for Money work. The amounts above and beyond the scale fee are subject to agreement by PSAA, who will give the Council the opportunity to make representations about the additional charges.

5. RISK

- 5.1 This report is presented for information only and has no decisions which give rise to risk management implications.
-

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 No consultation has been taken in relation to this report.
-

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 Next steps are outlined within Appendix 1.
-

8. REPORT APPENDICES

- Appendix 1: Maidstone Borough Council Audit Plan
-

9. BACKGROUND PAPERS

None

Maidstone Borough Council audit plan

Year ending 31 March 2022

Maidstone Borough Council
15 September 2022



Contents



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

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Key matters

Factors

Financial management

The Council continues to have a good record for financial management. In 2021-22 the provisional outturn on the revenue budget indicates that the Council had a net underspend of £467,000 against a budget of £19,695,000.

The future funding framework for the wider local authority sector remains unclear. However, the Council has a robust medium term financial planning framework. The medium term financial strategy covers a five year period and was most recently formally updated in February 2022, with further scoping and detailed scenario planning taking place in July 2022. Whilst there remains considerable uncertainty in the current economic environment this medium term planning indicates that for all scenarios the Council will be required to make savings over the lifetime of the plan, with those assumptions based on continued stagflation requiring substantial annual savings in later years.

The Council continues to have:

- A strong balance sheet. At 31 March 2022 the Council had total usable reserves of £34.1m. Short and long term borrowing at 3 March 2022 totalled only £9m.
- A significant capital programme, based on a 5 year capital strategy. The most recent capital programme as updated in February 2022 anticipates total expenditure of £233m in the planned period to 31 March 2026.

Covid-19

Although the Council has again been required to manage the impact of the pandemic in 2021-22 income has recovered more quickly than expected in a number of areas, contributing to the underspend on the 2021-22 revenue budget. There is a continuing need for the Council to account for its share of Collection Fund deficits associated with reduced levels of business rate collection, but the impact will be substantially offset by additional Section 31 funding from central government.

Our response

- As a firm we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, reflects this commitment.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit, Governance and Standards Committee update reports.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Maidstone Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor Maidstone Borough Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Governance and Standards Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit, Governance and Standards Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings, including investment properties
- Valuation of net pension liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.95m (PY £1.8m) for the Council, which equates to approximately 2% of your gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £97.5k (PY £45k).

Value for Money arrangements

At the time of writing our risk assessment regarding your arrangements to secure value for money is ongoing. However, our work to date has not identified any risks of significant weakness in your arrangements. We will report to the Audit, Governance and Standards Committee any risks of significant weaknesses identified from the results of our risk assessment work.

Introduction and headlines



Audit logistics

For 2021/22 the deadline for preparing draft accounts is 31 July 2022 and for publishing audited accounts 30 November 2022. The Council published draft accounts on 18 July 2022.

Our original timetable anticipated that our planning and interim work would be completed in March-April 2022, with our final audit visit to commence following receipt of the draft accounts. However, all audit firms are suffering a substantial backlog associated with the impact of the pandemic and with wider capacity and resourcing issues. As a result only 55% of local government audits for 2020/21 and earlier years have been completed as at August 2022, with the Maidstone 2020/21 audit amongst those yet to be concluded. The impact has been to delay our planned timetable. Our planning and interim work has been completed in the period July-September 2022. Our final audit visit is currently planned to start in October 2022.

Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our fee for the audit will be £64,666 for the Council, subject to the Council delivering a good set of financial statements and working papers. Further details are provided at the section "Audit Fees".

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>The revenue cycle includes fraudulent transactions (rebutted)</p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA (UK) 240 and nature of the revenue streams at Maidstone Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable. <p>We do not consider this to be a significant risk for Maidstone Borough Council.</p>	
<p>Management over-ride of controls</p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We 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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (including investment properties)	<p>The Council revalues its land and buildings on a rolling five-yearly basis to ensure that carrying value is not materially different from fair value. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£151m in 2021-22), and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2022 in the Council's financial statements is not materially different from the current value, or the fair value for investment properties, at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluate the competence, capabilities and objectivity of the valuation expert. • Write to/Discuss with the valuer to confirm the basis on which the valuation was carried out. • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation. • Test revaluations made during the year to see if they had been input correctly into the asset register. • Evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
Valuation of the pension fund net liability	<p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£85.3m at 31 March 2022) and the sensitivity of the estimate to changes in key assumptions.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Update 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. • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Test 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. • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • Obtain assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund; and the fund assets valuation in the pension fund financial statements.

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Expenditure recognition	<p>As most public bodies are net spending bodies, the risk of material misstatement due to fraud relating to expenditure may be greater than the risk of fraud relating to revenue.</p> <p>There is a risk that the Council may manipulate its expenditure to that budgeted. Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end, or not record expenses accurately to improve financial results.</p> <p>In line with Practice Note 10, having considered the risk factors related to this risk and the nature of the Council's expenditure streams we have determined that the risk of fraud arising from expenditure can be rebutted because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate expenditure recognition; • Opportunities to manipulate expenditure recognition are very limited; • The culture and ethical framework of local authorities, including Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable. <p>However, we have identified that due to the level of estimation involved in the manual accruals of expenditure, and the potential volume of large accruals at year end, there is an increased risk of error of completeness in expenditure recognition.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. • Inspect a sample of accruals made at year end for non-pay expenditure not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. • Investigate manual journals posted as part of the year end accounts preparation that reduce expenditure, to assess whether there is appropriate supporting evidence for the transaction.

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

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

Introduction

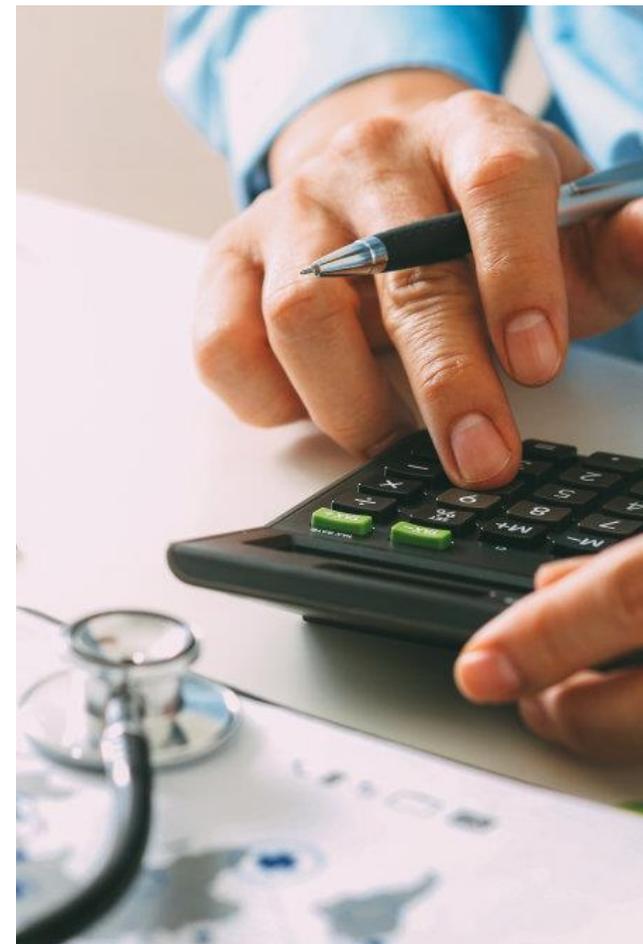
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

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

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

Specifically do Audit, Governance and Standards Committee members:

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



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, and investment properties
 - Valuation of defined benefit net pension fund liabilities
 - Depreciation
 - Year end provisions and accruals
- 54 Credit loss and impairment allowances

The Council's Information systems

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

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

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

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

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



Estimation uncertainty

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

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

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

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

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

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

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

Planning enquiries

As part of our planning risk assessment procedures we make enquiries to management. A response to our 2021-22 inquiries has been provided and was reported by management to the July 2022 Audit, Governance and Standards Committee.

Further information

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

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

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
 - We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
 - We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- 56 We consider our other duties under legislation and the Code, as and when required, including:
- giving electors the opportunity to raise questions about your 2021-22 financial statements, consider and decide upon any objections received in relation to the 2021-22 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and
 - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

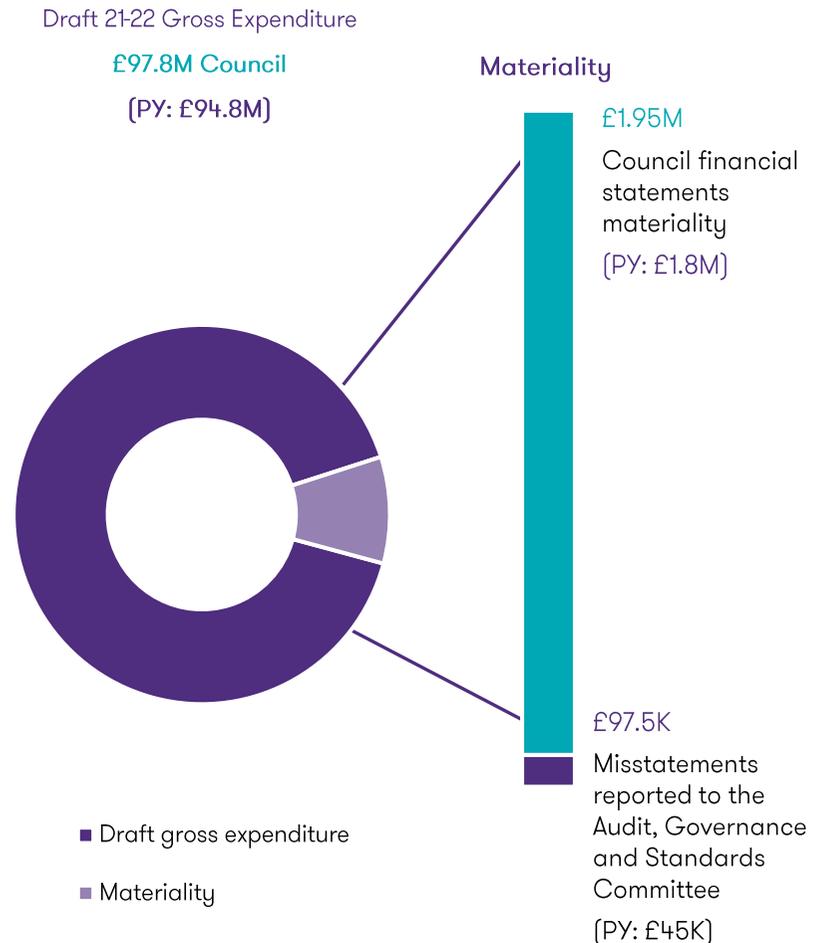
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.95m (PY £1.8m) for the Council, which equates to 2% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for senior officer remuneration and exit packages.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit, Governance and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Governance and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £97.5k (PY £45k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Governance and Standards Committee to assist it in fulfilling its governance responsibilities.



IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Agresso	Financial reporting	Streamlined ITGC design assessment

We have not identified significant changes during the period affecting the IT controls of the Council and therefore no additional audit procedures will be completed.

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Value for Money arrangements

Approach to Value for Money work for 2021-22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

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We have yet to conclude on our detailed Value for Money planning procedures. We will update the Audit, Governance and Standards Committee on the outcome of these planning procedures, our resulting risk assessment and our planned response to any identified risks of significant weaknesses in arrangements at a future Audit, Governance and Standards Committee meeting.



Audit logistics and team



Paul Dossett, Partner



Paul is responsible for the overall client relationship, quality control, provision of the audit opinion, meeting with key internal stakeholders and final authorisation of reports. Paul will attend Audit, Governance and Standards Committee meetings supported by Trevor as required.

Trevor Greenlee, Audit Manager



Trevor will work with the senior members of your finance team, ensuring delivery of the final accounts audit and VFM work. Trevor is responsible for the overall management of our work with the Council, and quality assurance of audit work and outputs.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing;
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit; and
- respond promptly and adequately to audit queries.

Audit fees

In 2017, PSAA awarded a contract of audit for Maidstone Borough Council to begin with effect from 2018-19. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs, which are relevant from the 2021-22 audit.

Across all sectors and firms the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake additional and more robust testing in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our fee incorporates the impact of FRC requirements and changes to standards in previous years which remain applicable for 2021-22. Our proposed fee for 2021-22 is set out below.

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	Proposed fee 2021-22
Statutory audit for Maidstone Borough Council	£
Scale fee published by PSAA	41,666
Fee increases in previous years for the impact of revised ISAs and FRC requirements which remain applicable for 2021-22	14,000
Value for Money work	9,000
Total audit fees (excluding VAT)*	64,666

*All fees over and above the scale fee will be subject to agreement by PSAA.

Assumptions

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

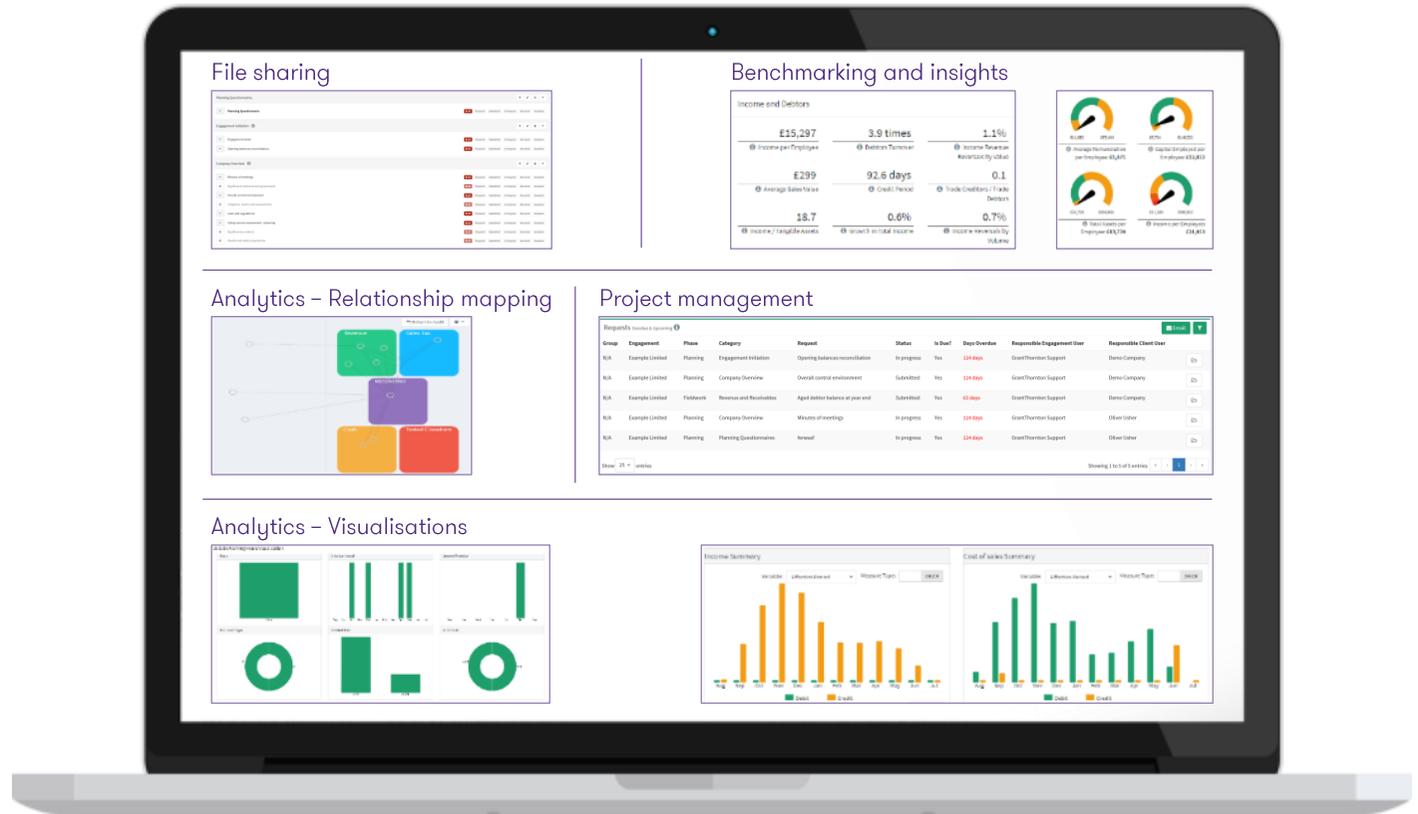
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Work as Reporting Accountant on the Housing Benefit Subsidy claim	TBC	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 total agreed fee for this work in 2020-21 was £25,000 in comparison to the total planned fee for the audit of £64,666, 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.
Non-audit related None			

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

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How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.



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Agenda Item 16

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

27 September 2022

Budget Strategy – Risk Assessment Update

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service/Lead Director	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Mark Green, Director of Finance and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

Current projections indicate that the Council will remain within budget for the current financial year in spite of pressures in particular around temporary accommodation. Future prospects are more uncertain, given the economic outlook and lack of information about how the strategy of the new administration led by Liz Truss will impact on local government. Work is under way in developing a budget for 2023/24 and will consider a range of potential scenarios.

This report makes the following recommendations to this Committee:

That the Audit Governance and Standards Committee notes the updated risk assessment of the Budget Strategy provided at Appendix A.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	27 September 2022

Budget Strategy – Risk Assessment Update

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council’s decisions on the allocation of resources to all objectives of the strategic plan.	Director of Finance and Business Improvement
Cross Cutting Objectives	The cross cutting objectives are reflected in the MTFS and the budget.	Director of Finance and Business Improvement
Risk Management	Matching resources to priorities in the context of the significant pressure on the Council’s resources is a major strategic risk. Specific risks are set out in Appendix A.	Director of Finance and Business Improvement
Financial	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.	Director of Finance and Business Improvement
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement
Legal	The Council has a statutory obligation to set a balanced budget and development of	Director of Finance and Business Improvement

	the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	
Privacy and Data Protection	No implications.	Director of Finance and Business Improvement
Equalities	The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Director of Finance and Business Improvement
Public Health	None identified.	Director of Finance and Business Improvement
Crime and Disorder	None identified.	Director of Finance and Business Improvement
Procurement	None identified.	Director of Finance and Business Improvement
Biodiversity and Climate Change	None identified.	Director of Finance and Business Improvement

2. INTRODUCTION AND BACKGROUND

- 2.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Members have requested that the Budget Risk Matrix and Risk Register be updated and reported to each meeting of the

Committee, so that it continues to be fully briefed on factors likely to affect the Council's budget position.

Current financial position

- 2.2 The Council set a balanced budget for 2022/23, including an additional provision of £1.3 million for the expected impact of higher inflation on the Council's input costs.
- 2.3 Current financial monitoring indicates that a surge in the numbers presenting as homeless and requiring temporary accommodation will give rise to an additional pressure in 2022/23 of around £700,000. Inflationary pressures can be contained within the provision made in the budget and anticipated underspends elsewhere will offset the £700,000 pressure and allow the Council's budget to remain within balance overall. Although the Council has a good track record of remaining with budget, because of the pressures on the homelessness budget, the risk of failing to contain expenditure within agreed budgets has been modified in the risk register.
- 2.4 The Council's balance sheet position remains strong. At the start of the financial year 2022/23, unallocated General Fund reserves amount to £9 million. Short-term investments – cash or equivalent – amounted to £41 million. Long term borrowing remained modest, at £9 million.
- 2.5 The Council has an ambitious capital programme, amounting to £230 million over five years. This will largely be funded from external sources, so borrowing will increase rapidly from the current low levels. In anticipation of higher interest rates, the Council has committed to forward borrowing of £80 million, which will be drawn down between 2024 and 2026. This provides a measure of assurance that the Capital Programme remains deliverable, notwithstanding increases in finance costs and potential future constraints on local authority borrowing from the Public Works Loan Board.
- 2.6 In summary, the Council currently enjoys a sound financial position, with a balanced budget and a strong balance sheet.

Future financial position

- 2.7 The prospects for the broader UK economy over the five years of the MTF5 period are extremely challenging. The Bank of England projects negligible growth over the next two years and any subsequent recovery will be modest.
- 2.8 Stagnant economic growth will be accompanied, in the short term at least, by high inflation. Inflation has reached over 10% before falling back slightly in August 2022. Higher levels of inflation affect the Council in a variety of ways. The most direct is through contracts which are linked to inflation. The main item of Council expenditure, comprising around 50% of the total, is pay. The Council will need to balance the requirement to support employees in meeting the cost of living with the need for future pay settlements to remain affordable.

- 2.9 Work is currently under way to update the Medium Term Financial Strategy and to propose a budget for 2023/24. At this stage, the financial context remains unclear, both because of the UK's economic position and because at this early stage in the life of the new administration led by Liz Truss it is not known how its strategies will impact local government. Whilst members of the government have promoted the idea of 'going for growth', it is not clear whether local authorities will be given the financial flexibility needed to support this aspiration at a local level.
- 2.10 A key variable for this Council, given its dependence on Council Tax income, is the Council Tax referendum limit, which for 2022/23 is 2%. With inflation running at around 10%, maintaining the referendum limit at this level would require substantial savings to be made, so the risk arising from constraints on council tax increases has been upgraded in the budget risk register.
- 2.11 It can therefore be seen that the future budget position of the Council is heavily dependent on government policy in relation to the referendum limit as well as on the overall economic climate.

Delivering the capital budget

- 2.12 There are two main risks associated with the capital programme.
- 2.13 Firstly, the availability of funding is essential to delivery of the programme. Currently, funding for the capital programme is readily available: in the short term, through the market in borrowing and lending between local authorities; and over the longer term, through the Public Works Loan Board (PWLB). There is no indication that the government will withdraw this facility for local authorities, so long as the lending is not for purely commercial investment purposes.
- 2.14 However, it is appropriate to mitigate the risk of dependency on the PWLB, and as set out in paragraph 2.5 above the Council has sourced £80 million of forward borrowing from a private sector investor. This also allows the Council to lock in interest rates as at March 2022 for a portion of its debt.
- 2.15 A second risk to the capital budget is the impact of inflation and supply blockages. Over time, the impact of higher input costs should be reflected in higher returns from capital investment and increases in the value of capital assets. However, the Council is likely to see severe budget pressures in the short term at the level of individual capital projects, requiring additional funding to be transferred within the overall capital budget envelope and reducing the overall amount of funding available. These risks are likely to be exacerbated by Russia's invasion of Ukraine and the consequent impact on energy prices.

External factors

- 2.16 The Covid-19 pandemic shows how vulnerable the Council is to external factors, although in the event the financial impact has been mitigated through government support. The corporate risk register includes risks relating to (a) major emergencies such as a new pandemic and (b) a

resurgence of the Covid-19 pandemic. This has been mirrored in the Budget Risk Register.

2.17 As already indicated above, the overall performance of the economy impacts both the revenue budget and the capital programme.

2.18 In light of the risks described above, the following changes are proposed to the budget risk register.

Ref	Risk	Factor considered	Implications for risk profile
A	Failure to contain expenditure within agreed budgets	A very substantial overspend is anticipated on the cost of providing temporary accommodation, which it may not be possible to offset through savings elsewhere	Impact – very substantial (increased) Likelihood – possible (no change)
I	Constraints on Council Tax increases	If the Council Tax referendum limit remains at 2% this would create a large budget gap	Impact – very substantial (increased) Likelihood – probable (no change)

2.19 Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register. Additionally, at the Committee’s request, the possible monetary impact of the risks has been indicated. Note that it is very difficult to quantify the financial impact of risks in precise terms. The information is provided simply to give an indication of the order of the risks’ financial magnitude. The information is also set out in the form of a bar chart.

2.20 Members are invited to consider further risks or to propose varying the impact or likelihood of any risks.

3. AVAILABLE OPTIONS

3.1 Option 1 - The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This may impact the Council’s service planning and/or be reflected in the developing Medium Term Financial Strategy.

3.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Option 2 – It is recommended that the Committee notes the risk assessment.
-

5. RISK

- 5.1 Risk is addressed throughout this report so no further commentary is required here.
-

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Each year the council as part of the development of the MTFS and the budget carries out consultation on the priorities and spending of the council. A Residents' Survey was completed for the 2022/23 budget and the results were reported to Service Committees as part of the budget setting process.
-

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.
-

8. REPORT APPENDICES

The following document is to be published with this report and forms part of the report:

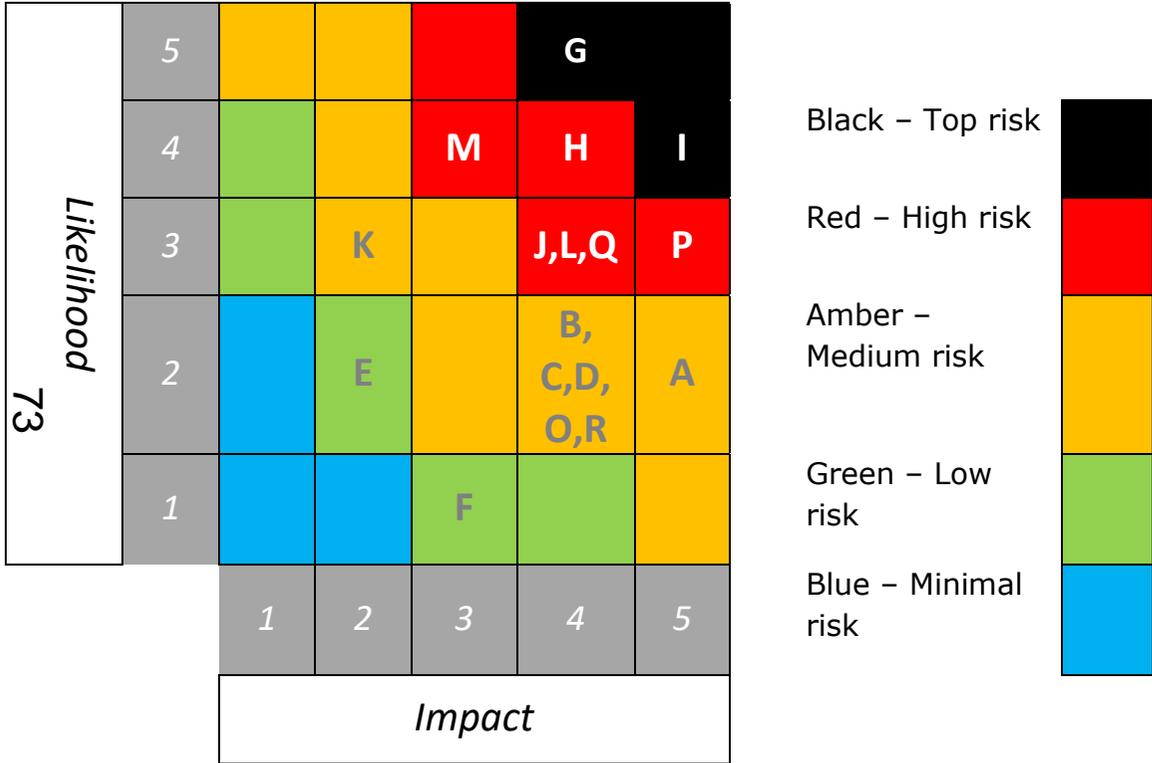
- Appendix A: Budget Strategy Risks
-

9. BACKGROUND PAPERS

None.

Budget Strategy Risks

The risk matrix below provides a summary of the key budget risks. The risk register that follows provides more detail.

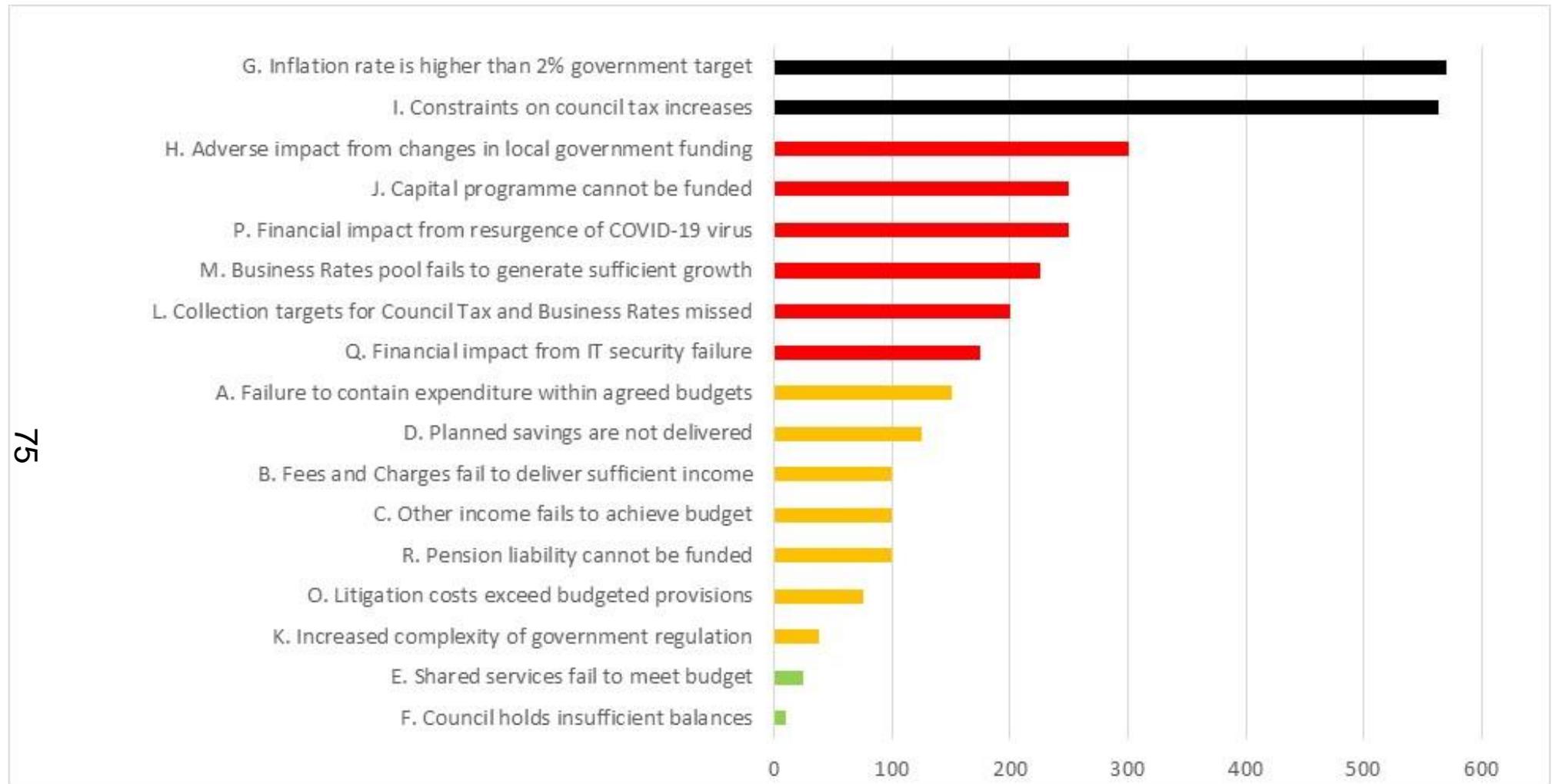


A. Failure to contain expenditure within agreed budgets	J. Capital programme cannot be funded
B. Fees and Charges fail to deliver sufficient income	K. Increased complexity of government regulation
C. Other income fails to achieve budget	L. Collection targets for Council Tax and Business Rates missed
D. Planned savings are not delivered	M. Business Rates pool fails to generate sufficient growth
E. Shared services fail to meet budget	O. Litigation costs exceed budgeted provisions
F. Council holds insufficient balances	P. Financial impact from a resurgence of Covid-19
G. Inflation rate is higher than 2% government target	Q. Financial impact from IT security failure
H. Adverse impact from changes in local government funding	R. Pension liability cannot be funded
I. Constraints on council tax increases	

The budget risks may be ranked, based on the scores shown below, as follows:

Risk	Ranking	Financial impact (in any one financial year)				
		Lower £000	Upper £000	Mid- point £000	Likelihood %	Weighted £000
G. Inflation rate is higher than 2% government target	1	400	800	600	95	570
I. Constraints on council tax increases	2	500	1,000	750	75	563
H. Adverse impact from changes in local government funding	3	100	900	400	75	300
J. Capital programme cannot be funded	4=	250	750	500	50	250
P. Financial impact from resurgence of COVID-19 virus	4=	250	750	500	50	250
M. Business Rates pool fails to generate sufficient growth	6	150	450	300	75	225
L. Collection targets for Council Tax and Business Rates missed	7	200	600	400	50	200
Q. Financial impact from IT security failure	8	100	600	350	50	175
A. Failure to contain expenditure within agreed budgets	9	200	800	600	25	150
D. Planned savings are not delivered	10	250	750	500	25	125
B. Fees and Charges fail to deliver sufficient income	11=	200	600	400	25	100
C. Other income fails to achieve budget	11=	200	600	400	25	100
R. Pension liability cannot be funded	11=	200	600	400	25	100
O. Litigation costs exceed budgeted provisions	14	100	500	300	25	75
K. Increased complexity of government regulation	15	50	100	75	50	38
E. Shared services fail to meet budget	16	50	150	100	25	25
F. Council holds insufficient balances	17	100	300	200	5	10

Chart - Budget risks



Budget Strategy Risk Register

The following risk register sets out the key risks to the budget strategy. The register sets out the consequences of each risk and the existing controls in place.

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
A	<p>Failure to contain expenditure within agreed budgets</p> <p>The Council overspends overall against its agreed budget for the year</p>	<p>Failure to meet the budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.</p>	<ul style="list-style-type: none"> - Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2022/23. - Strong controls over expenditure and established process for recovering from overspends 	5	2	10
76 B	<p>Fees & Charges fail to deliver sufficient income</p> <p>Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.</p>	<p>The total value of all Council income from fees and charges is around £20 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.</p>	<ul style="list-style-type: none"> - Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised. 	4	2	8
C	<p>Other income fails to achieve budget</p> <p>In addition to fees and charges, the Council relies on other income from capital investment, which may not deliver the expected level of income.</p>	<p>The medium term financial strategy includes a contribution from investment opportunities, so any shortfall would have an impact on the overall strategy.</p> <p>Income generation from investment activities supports the revenue budget and is required in order to pay back capital investment.</p>	<ul style="list-style-type: none"> - The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses. - Individual risks associated with specific projects within the capital strategy will be assessed, both as part of the project 	4	2	8

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
			appraisal process and during the course of delivering the projects.			
D 77	<p>Planned savings are not delivered</p> <p>Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget</p>	<p>The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation.</p> <p>Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<ul style="list-style-type: none"> - The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process. - Savings proposals are separately identified and monitored in the Council's general ledger. - The ability to achieve the targeted savings is monitored quarterly in budget monitoring reports to the Corporate Leadership Team and to Service Committees. 	4	2	8
E	<p>Shared Services</p> <p>Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.</p>	<p>Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<p>The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.</p>	2	2	4
F	<p>Insufficient Balances</p> <p>Minimum balance is insufficient to cover unexpected events</p> <p>OR</p> <p>Minimum balances exceed the real need and resources are held without identified purpose with low investment returns</p>	<p>Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves.</p> <p>The Council would not gain best value from its resources as Investment returns are low in the current market.</p>	<ul style="list-style-type: none"> - The Council has set a lower limit below which General Fund balances cannot fall of £4 million. - At the beginning of the 2022/23 financial year unallocated General Fund reserves stood at £9 million. 	3	1	3
G	<p>Inflation rate is higher than 2% government target</p>	<p>Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.</p>	<ul style="list-style-type: none"> - Allowances for inflation are developed from three key threads: 	4	5	20

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	Actual levels are significantly above or below target	Services have supported the budget strategy through savings. Levels below those expected would result in an increase in balances or unused resources that could be used to achieve strategic priorities.	<ul style="list-style-type: none"> ○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally <p>- MTFS core inflation projections are based on the government's 2% inflation target but an additional contingency of £1.3 million is included in the 22/23 budget</p>			
78 ^H	<p>Adverse impact from changes in local government funding</p> <p>The financial implications of the new local government funding regime, now unlikely to be introduced until 2022/23, remain unclear.</p>	The Council no longer receives Revenue Support Grant (RSG), but the amount of Business Rates that it retains depends on the funding regime set by central government.	<p>- The Medium Term Financial Strategy to 2026/27 includes an adverse scenario which allows for a significant impact on the Council's resources,</p> <p>- The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.</p>	4	4	16
I	<p>Constraints on council tax increases</p> <p>The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than the referendum limit.</p>	The limit on Council Tax increases means that inflation levels in excess of the referendum limit have to be absorbed by making savings elsewhere.	<p>- The budget for 2022/23 incorporates a Council Tax increase of 2%.</p> <p>- Budget planning is based around the assumption that Council Tax increases will be maximised within the constraints of the referendum limit in subsequent years.</p>	5	4	20
J	<p>Capital Programme cannot be funded</p> <p>Reduction or total loss of funding sources means that the capital programme cannot be</p>	<p>The main sources of funding are:</p> <ul style="list-style-type: none"> ○ Internal borrowing ○ PWLB borrowing 	<p>- Council has access to borrowing.</p>	4	3	12

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	delivered or demands on funding exceed available supply	<ul style="list-style-type: none"> ○ New Homes Bonus ○ Capital Grants ○ Developer contributions (S106) <p>A reduction in this funding will mean that future schemes cannot be delivered.</p>	<p>- Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria.</p> <p>- Capital expenditure is monitored carefully against the borrowing limits that the Council sets itself.</p>			
K 79	<p>Increased volume and complexity of government regulation</p> <p>Covid-19 and the range of government support for local authorities and the community have led to a rapid increase in the volume and complexity of reporting and regulation.</p>	<p>Scaling up administrative resources to address the increased volume and complexity of reporting and regulation may divert attention from other priorities.</p> <p>Ultimately, failure to comply with new regulatory requirements could pose financial and reputational risk for the Council.</p>	<p>- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents.</p> <p>- Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.</p>	2	3	6
L	<p>Business Rates & Council Tax collection</p> <p>Council fails to maintain collection targets for business rates and council tax</p>	<p>Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.</p> <p>Business rates amount to around £50 million in 2022/23 and Council Tax due amounts to around £120 million.</p>	<p>- The Council has a good track record of business rates and Council Tax collection.</p> <p>- Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc.</p>	4	3	12
M	<p>Business Rates pool</p> <p>Changes to rateable value (RV) or instability of business rates growth within the pool may not generate projected levels of income</p>	<p>Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.</p>	<p>- The pool is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of the pool across Kent as a whole is projected to be around £14m in 2022/23.</p>	3	4	12

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
			- Provisions have been made when projecting business rates income for bad debts and losses on appeal so any loss of income would relate to the excess over the provisions already made.			
O	Litigation costs exceed budgeted provisions. The Council is often engaged in litigation and generally the costs of any award against the Council and associated costs of legal advice can be met from within budgets. However, it is prudent to acknowledge the risk that provisions may not in fact be sufficient to cover all likely costs.	Costs in excess of budget would require a drawing on reserves and the identification of savings in subsequent years in order to replenish the level of reserves.	<ul style="list-style-type: none"> - Corporate Leadership Team is updated regularly on outstanding legal cases. - Appropriate professional advice is taken at all times. 	4	2	8
08 P	Financial impact from a resurgence of COVID-19 A resurgence of the pandemic would see similar impact to those experienced in the first wave, eg reduction in fees and charges income arising from lower levels of economic activity and the effect of a broad reduction in economic growth on public finances.	In the short term the Council would need to draw on reserves to cover the financial costs, but in the longer term savings would be required to replenish reserves.	<ul style="list-style-type: none"> - Senior officer group mobilised to address short term impacts - Mitigations to be developed over longer term 	5	3	15
Q	Financial impact from IT security failure Local authorities have been subject to cyber attacks over the past few years, often with severe financial and service implications.	The Council might have to suspend normal financial transactions for a period of time.	<ul style="list-style-type: none"> - Anti-virus software - Regular communications with staff to warn about risks - Back-up arrangements with neighbouring authorities 	4	3	12
R	Pension liability cannot be funded There are a range of risks associated with the pension liability, including pension fund investment performance, inflation in salaries and pensions, changes in longevity, and capacity of the organisation to support pension fund contributions.	Additional revenue costs will arise from an increased pension liability	<ul style="list-style-type: none"> - Regular actuarial valuations - Mitigating actions in the form of increases to employer pension contributions 	4	2	8

Impact & Likelihood Scales

RISK IMPACT

Level	Service risk	Reputation Risk	H&S	Legal Risk	Financial Risk	En'ment Risk
Catas-trophic (5)	Ongoing failure to provide an adequate service	Perceived as failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend. Breaches of law punishable by imprisonment or significant fines	Uncontrollable financial loss or overspend over £500k	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor service. Disrupted 5 days+	Significant adverse national publicity	Fails to prevent death, causes extensive perm injuries or LT sick	Litigation expected, but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £250k	Long term major public health or environmental incident (1yr+)
Moderate (3)	Unsatisfactory performance Service disrupted/ stopped 3-5 days	Adverse national publicity or significant adverse local publicity	Fails to prevent extensive, permanent injuries or LT sickness	Complaint likely, litigation possible Breaches of regs or standards	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1yr)
Minor (2)	Marginal reduction in performance Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend greater than £10k	Short term public health or environmental incident (weeks)
Minimal (1)	No significant service impact Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries		Financial loss or overspend under £10k	Environmental incident with no lasting detrimental effect

RISK LIKELIHOOD

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