

AGENDA

AUDIT COMMITTEE MEETING



Date: Monday 25 November 2013
Time: 6.30 p.m.
Venue: Town Hall, High Street,
Maidstone

Membership:

Councillors Black, Butler, Daley, Nelson-Gracie
(Chairman) and Warner

Page No.

1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members
4. Disclosures by Members and Officers
5. Disclosures of Lobbying
6. To consider whether any items should be taken in private because of the possible disclosure of exempt information
7. Minutes of the meeting held on 16 September 2013

1 - 6

Continued Over/:

Issued on 15 November 2013

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Alison Broom

**Alison Broom, Chief Executive, Maidstone Borough Council,
Maidstone House, King Street, Maidstone, Kent ME15 6JQ**

8.	Report of the Head of Policy and Communications - Annual Governance Statement Action Plan Update	7 - 14
9.	Report of the Head of Audit Partnership - Internal Audit - Interim Report	15 - 34
10.	Report of the Head of Finance and Resources - External Auditor's Letter to the Chairman	35 - 42
11.	Report of the Head of Finance and Resources - External Auditor's Annual Audit Letter 2012/13	43 - 60
12.	Report of the Head of Finance and Resources - Treasury Management Half Yearly Review 2013/14	61 - 68
13.	Audit Committee Work Programme 2013/14	69 - 71

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 16 SEPTEMBER 2013

Present: Councillor Butler (in the Chair) and
Councillors Black, Daley, Warner and Yates

Also Present: Ellie Dunnet, Steve Golding and Darren Wells –
Grant Thornton – External Auditor

46. CHAIRMAN

In the absence of the Chairman, the Vice-Chairman (Councillor Butler) took the Chair.

47. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Nelson-Gracie.

48. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Yates was substituting for Councillor Nelson-Gracie.

49. URGENT ITEM

Report of the Head of Finance and Resources – Grant Thornton Letter of Representation

The Vice-Chairman (in the Chair) stated that, in his opinion, the report of the Head of Finance and Resources relating to the Council's Letter of Representation to the External Auditor should be taken as an urgent item as it formed part of the formal approval of the Statement of Accounts for 2012/13.

50. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

51. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

52. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

53. EXEMPT ITEMS

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

54. MINUTES OF THE MEETING HELD ON 12 AUGUST 2013

RESOLVED: That the Minutes of the meeting held on 12 August 2013 be approved as a correct record and signed.

55. INTERNAL AUDIT CHARTER

The Committee considered the report of the Head of Audit Partnership setting out details of a number of issues to be addressed in order to put the Internal Audit Partnership in a strong position for the future. These included:

- The introduction of an Internal Audit Charter to define the purpose, authority and responsibilities of the Internal Audit service;
- An external assessment of conformance with the Public Sector Internal Audit Standards (PSIAS);
- The creation of a one employer model through the TUPE process for the Internal Audit shared service;
- The extension of the Internal Audit shared service agreement for five years from 1 April 2014; and
- The recruitment of a new Head of Audit Partnership as the current post holder would be retiring on 31 March 2014.

It was noted that:

- In accordance with the PSIAS which came into effect on 1 April 2013, the Audit Committee was required to approve the Internal Audit Charter.
- The PSIAS required that an independent external assessment of conformance be carried out at least once every five years. The Head of Audit Partnership considered that a five-year assessment was appropriate, subject to the Audit Committee continuing to be satisfied with the quality and effectiveness of the service. He also considered that an early assessment would be helpful in terms of identifying any areas for improvement and providing positive assurance to the Committee and other stakeholders in terms of conformance with the standards. In this connection, an external quality assessment would be carried out by a team from the Chartered Institute of Internal Audit in January 2014, and the cost (£7,000) would be spread across the four partner Councils. It was the intention that full conformance with the PSIAS would be demonstrated by 31 March 2014.

- The one employer proposal would address the disadvantages associated with the current shared service arrangements for Internal Audit, including lack of flexibility in the use of staff and to adjust the cost of the service; variations in pay and conditions of employment between the four partner authorities; no options for the rotation of staff; difficulties in maintaining auditor objectivity and independence; limited cross partnership learning and limitations regarding the resilience that can be provided; and difficulties in management control.
- The shared service arrangements for Internal Audit were the subject of a five year collaboration agreement which was due to expire on 31 March 2015. In the light of the proposed changes to the employment model and the need to attract a good quality candidate for the post of Head of Audit Partnership, it was proposed that the agreement be extended for five years with effect from 1 April 2014, expiring on 31 March 2019.

The Head of Audit Partnership advised the Committee that the Maidstone Internal Audit team had undergone some changes recently. Russell Heppleston had been appointed as Audit Manager for Maidstone and Swale with immediate effect, and two new Internal Auditors had been appointed.

In response to questions by Members, the Head of Audit Partnership explained that:

- In terms of the Internal Audit Charter, and, in particular, the training and qualifications needed to be an Internal Auditor, it had been a requirement of the recent recruitment exercise that the candidates be professionally qualified or pursuing a professional qualification. Internal Auditors were expected to enhance their knowledge, skills and other competencies through continuing professional development, and at Maidstone a training budget was maintained to support that.
- There was a risk that one or more of the four partner authorities might not agree to the proposal to extend the collaboration agreement to 2019. However, the Officer Board was supportive, and there was no indication at the moment that any of the Councils wished to withdraw from the partnership.

RESOLVED:

- (a) That the Internal Audit Charter, attached as an Appendix to the report of the Head of Audit Partnership, be approved;
- (b) That it be noted that an external assessment of Internal Audit's conformance with the Public Sector Internal Audit Standards will be carried out in January 2014;

- (c) That the proposal to create a one employer model for the Internal Audit shared service be noted;
- (d) That the proposal to extend the Internal Audit shared service agreement for five years from 1 April 2014 be noted; and
- (e) That the arrangements that are being put in place to recruit a new Head of Audit Partnership be noted.

56. EXTERNAL AUDITOR'S AUDIT FINDINGS REPORT 2012/13

The Committee considered the report of the Head of Finance and Resources concerning the findings of the audit of the Statement of Accounts for 2012/13 undertaken by Grant Thornton who had replaced the Audit Commission as the Council's External Auditor. In conjunction with this report, the Committee considered the urgent report of the Head of Finance and Resources relating to the Council's Letter of Representation to the External Auditor as it formed part of the formal approval of the Statement of Accounts for 2012/13. It was noted that:

- The audit was substantially complete although the External Auditor was finalising work in a number of areas including obtaining and reviewing revised working papers in respect of Collection Fund debtors and creditors.
- The audit had identified the need to make a number of adjustments to the un-audited Statement of Accounts. These related primarily to classification errors and did not impact upon the Council's net expenditure or revenue balances. The External Auditor had also agreed several changes to the notes to the Accounts in order to improve the clarity and presentation of the Statement.
- The External Auditor had made a number of specific recommendations arising from the audit of the Statement of Accounts. These related to the valuation of property assets and the Officers had agreed to implement them in accordance with the recommended timescale. There were no specific recommendations in relation to the Value for Money conclusion, and the External Auditor was satisfied that in all significant respects the Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of its resources.
- Subject to the satisfactory resolution of the outstanding issues, including the reissue of the Council's Letter of Representation as a consequence, it was anticipated that the External Auditor would provide an unqualified opinion on the Statement of Accounts by the end of September 2013.

The Committee asked a number of questions of the Officers relating to:

- The reasons for some significant variances in original estimates and actual expenditure across the portfolios;

- Accounting practice in relation to intangible assets (for example, software licences);
- The implications of misclassifications, particularly with regard to the Comprehensive Income and Expenditure Statement year on year;
- The establishment and maintenance of a level of reserves appropriate for the risks to which the Authority is exposed;
- The adequacy of the management response to the External Auditor's recommendations in relation to the valuation of property assets;
- The inclusion in the Accounts of estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain, and the effects if the actual results are materially different from the assumptions and estimates, for example the assumptions to be made in terms of the net liability to pay pensions;
- The trading deficit in relation to the Lockmeadow Market complex (due in part to occupancy levels);
- The valuation of Heritage Assets including museum exhibits and statues and sculptures; and
- The skills and experience available within the Finance Team to meet requirements.

The External Auditor advised the Committee that whilst there had been an improvement in the overall quality of the working papers provided to support the financial statements this year, the number of amendments made to disclosure notes as a result of the audit was high compared to other authorities and needed to be addressed.

The Head of Finance and Resources confirmed that he would ensure that the working papers in relation to the Collection Fund were made available as soon as possible to enable the External Auditor to conclude his opinion. The recruitment of a Chief Accountant would have an impact during the lead up to the 2013/14 Accounts closedown.

RESOLVED:

- (a) That the Audit Findings Report from the External Auditor, as set out in draft form as Appendix A to the report of the Head of Finance and Resources, be approved and that, in approving the report, the Committee notes the amendments to the Statement of Accounts, agrees the response to the proposed action plan and acknowledges the Council's Letter of Representation to the External Auditor on the understanding that it will be reissued when the outstanding issues are satisfactorily resolved;

- (b) That subject to the satisfactory resolution of the outstanding issues, the Statement of Accounts, as set out in Appendix B to the report of the Head of Finance and Resources, be approved; and
- (c) That the contents of the External Auditor's Financial Resilience Report, attached as Appendix C to the report of the Head of Finance and Resources, be noted.

57. GRANT THORNTON LETTER OF REPRESENTATION

See Minute 56 above.

58. AUDIT COMMITTEE WORK PROGRAMME 2013/14

The Committee considered its work programme for the remainder of the 2013/14 Municipal Year. Members expressed concern about the number of reports listed for the meeting scheduled to be held on 25 November 2013.

RESOLVED: That the Audit Committee work programme be noted and that the position regarding the potentially excessive agenda for the meeting scheduled to be held on 25 November 2013 be reviewed nearer the time.

59. MR STEVE GOLDING - EXTERNAL AUDITOR

Members were informed that this was Mr Golding's last meeting of the Audit Committee before his retirement.

RESOLVED: That Mr Golding be thanked for his services and contribution to the work of the Audit Committee over the years.

60. DURATION OF MEETING

6.30 p.m. to 7.30 p.m.

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

REPORT OF HEAD OF POLICY AND COMMUNICATIONS

Report prepared by Angela Woodhouse

- 1. ANNUAL GOVERNANCE STATEMENT ACTION PLAN UPDATE**
 - 1.1 Issue for Decision
 - 1.1 To note the update on the action plan as reported and recommend further actions as appropriate.
 - 1.2 Recommendation of Head of Policy and Communications
 - 1.2.1 That the update on the annual governance action plan be noted and the Committee recommend further action if required.
 - 1.3 Reasons for Recommendation
 - 1.3.1 The Audit Committee are a key part of the governance structure at the Council. The pillars of governance have been produced at **Appendix B** for reference. In August this year the Committee approved the annual governance statement, it was agreed that an update on the action plan arising from the annual governance statement would be reported to the Audit Committee on a six monthly basis. This provides the opportunity for greater Member involvement throughout the year. An updated action plan has been provided at **Appendix A**.
 - 1.3.2 The first meeting of the Corporate Governance working group comprising the Head of Audit Partnership, the Head of Finance and Resources and the Head of Legal Services (Monitoring Officer) and the Head of Policy and Communications has been held to consider corporate governance issues. The results of the recent information management audit and the changes to financial procedure rules have been identified by the group as requiring further work and an additional meeting has been arranged for December.
 - 1.3.3 Since the annual governance statement was agreed the Council has been subject to a Corporate Peer Challenge by the Local Government Association (LGA).The review considered the Council's capacity to deliver its ambitions; leadership and governance, financial planning

and capacity. The presentation from the LGA with regard to governance highlighted strengths including:

- Committed and focused Cabinet and Corporate Leadership Team (CLT)
- Great confidence in Chief Executive and CLT from partners, staff and members
- Strong relationship between members and officers, particularly between the Chief Executive and Leader
- Business engagement visits to the top 20 businesses by Chief Executive and portfolio holders
- Clear message on vision and values across the organisation including the values Service, Teamwork, Responsibility, Integrity, Value and Equality
- Effective scrutiny working demonstrating robust performance management
- Efficient decision making on shared services with joint Cabinet

Challenges for the authority going forward included:

- Completion of Local Plan essential
- Sustainability of strategies to be delivered in a changing political environment
- Partners and staff are not engaged in the early stages of some strategy development and feel it's a one way decision process without meaningful consultation
- Some operational staff appear complacent about the need for change
- Consider joint scrutiny of shared services

1.3.4 At the August meeting of the Audit Committee it was agreed that an update would be given on the effectiveness of the new enhanced scrutiny as well as an update on public meetings. This is proposed to come in March after there has been time for the model to bed in and following feedback from all members on the model. Following the concerns raised by the Committee in regard to public meetings the communications team have been considering alternatives to public meetings to engage local people in decision making and the Council. The progress made will be reported to Audit in March. The Constitution at present sets out a requirement to hold two public meetings a year, although this has not happened for some time:

“Public meetings will be held twice a year to allow the Council and its Strategic Partners to debate with the public topics chosen by the public.

At the conclusion of the debate the Leader of the Council will sum up and draw out the conclusions of the debate and ensure, at the appropriate time, feedback is given

regarding those issues raised both to the parties present at the meeting and to the public at large through the press.”

1.3.5 Since the action plan was agreed a number of actions have been completed, including the completion of the information management review by Objective. A revised competency framework for staff has been agreed and all staff have been briefed at one-council sessions in September and October focusing on great people and our values. A new Communications Strategy has been drafted to report to scrutiny in January focused on delivering and embedding our priorities.

1.4 Alternative Action and why not Recommended

1.4.1 The Committee could choose not to receive an update on the progress with the Annual Governance Statement . However, this would reduce member involvement in Governance.

1.5 Impact on Corporate Objectives

1.5.1 The Council has a Corporate Priority to achieve corporate and customer excellence, high standards of corporate governance are integral to achieving this priority

1.6 Risk Management

1.6.1 The Statement incorporates the essential elements of a well managed Council which ensures that many elements of the Strategic Risk Register are addressed.

1.7 Other Implications

1.7.1

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety
7. Human Rights Act
8. Procurement

9. Asset Management

1.8 Relevant Documents

1.8.1 Appendices

Appendix A – Annual Governance Statement Action Plan
Appendix B – Pillars of Governance

1.8.2 Background Documents

Annual Governance Statement 2012-13

<u>IS THIS A KEY DECISION REPORT?</u>		<u>THIS BOX MUST BE COMPLETED</u>	
Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
If yes, this is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			

APPENDIX A: SIGNIFICANT GOVERNANCE ISSUES ACTION PLAN

Actions for 2013/14 as identified in the last Annual Governance Statement:

Governance Issue	Action Taken	By When	By Whom
Corporate Leadership Team have identified a need to Review the Council's approach to Information Management	Objective Consultants have completed their review of the Council's approach to information management the findings from the review will be considered by CLT along with appropriate action on 3 December 2013	30 September 2013 – Review Completed	Anna Collier, Project Manager David Edwards Project Sponsor Angela Woodhouse – responsible officer for Information Management
Embedding Corporate Governance and Ensuring Best Practice is identified	A corporate governance working group has been set up to report into the Audit Committee on governance issues and the progress of the action plan. The group has met once and an additional meeting is planned to review changes to the constitution and relevant matters from the information management audit	Quarterly with updates to Audit Committee in October and March	Angela Woodhouse
Project Management	The report into the Museum East Wing project by the Chief Executive has confirmed that project management arrangements have significantly improved to address financial, planning and procurement of capital projects.	Ongoing	Paul Riley, Head of Finance and Resources reporting to CLT who will continue to monitor the adequacy of project management in the context of "lessons learned" from the Museum Project.
The Council undertook a follow up Stress survey in December 2012. This showed that we have	As a result of the original stress survey in 2011 the Council developed the one council engagement plan to focus on engaging all staff in our priorities. Following on from this initial	The work with the People Lab has started and the revised competency framework is now in place	Dena Smart and Corporate Leadership Team

Governance Issue	Action Taken	By When	By Whom
improved on most areas from the one in 2011. However action is still required to return to the ideal levels of stress in the organisation.	piece of work we have now appointed the People Lab to review how we engage with employees looking at support for managers, developing a coaching culture and tools for employee engagement on our priorities.	Tools for managers will be used throughout the year in accordance with the one council engagement plan.	
Testing the Council's approach to Strategic Planning and Meeting its outcomes for businesses and residents in regard to the economy	Corporate Peer Challenge from the LGA The review was completed and the final report will be going to CLT in December any actions relevant to Governance will be added to this action plan	31 October 2013	Cabinet and Corporate Leadership Team
Members' Professional Development The governance review in 2012/13 identified that this was an area for improvement particularly in relation to Members leading and owning their development.	The Member Development Policy has been revised and moved to Democratic Services to bring it closer to Members. Members will be asked via committees to identify their training needs and the process for attending conferences will be simplified.	Policy Approved 10 July 2013 Implemented during 2013/14	Democratic Services and Members
The Council's Communication and Engagement Strategy will be revised in 2013/14	Revised Strategy to accompany the Strategic Plan refresh. A revised strategy has been drafted, this will go to overview and scrutiny in January.	Overview and Scrutiny Invited to Review January 2014. Approved by Cabinet February 2014.	Angela Woodhouse, Head of Policy and Communications

Governance Issue	Action Taken	By When	By Whom
The residents survey identified that more work needed to be done to engage young people with the Council	<p>An action plan has been developed and put into place as one of the Council's equality objectives.</p> <p>The Communications team have developed a Social Media Policy</p>	The plan has milestones to be achieved by the end of March 2014	Roger Adley Communications Manager
Engagement of the Public in Local Decision Making	<p>Consultation will be carried out to identify issues of public concern for debate.</p> <p>Meetings of full Council will then take place on a topic of interest identified by the public.</p> <p>Following the Audit Committee's concerns the Communications team are now reviewing whether this is the most appropriate way to engage the public in local decision making</p>	To be conformed once actions are identified	Communications and Democratic Services

Appendix B - Pillars of Governance

Monitoring

Monitoring Officer, attends all meetings of the Corporate Leadership Team (CLT)

Effective Overview and Scrutiny Committees

Standards and Audit Committees in place

→
Corporate Project Board oversees all key projects

Effective Internal Audit partnership

Audit Reports produced for service areas in line with the approved Audit Plan

Annual Audit report to Audit and Council

External Audit, produce a number of reports which are reported to management

Local Code of Corporate Governance agreed annually

Performance and Financial Management

An Annual Performance Plan is in place aligned to the Strategic Plan

Reach the Summit monitors performance of services internally on a quarterly basis

Quarterly performance reports to CLT, Cabinet and Scrutiny

Annual Corporate Planning cycle in place to identify service planning, risks and budget requirements

Regular meetings held with heads of service to monitor performance and ensure compliance with a range of corporate policies

IiP accreditation and health checks

Treasury Management Code

[Prudential Indicators monitored daily](#)

Transparency and Partnership Working

Complaints monitored and reported quarterly to CLT and Scrutiny

Reports available on the council's website

[Senior Salaries. Spending with Suppliers and Contracts published on-line](#)

The Locality Board is in the process of being reviewed, the Board has several working groups in place to meet corporate priorities in partnership with private public and voluntary and community sector partners.

A partnership protocol has been adopted for the Mid Kent Improvement Partnership

Risk Management

Risk Management Strategy and action plans agreed and implemented

Operational risks incorporated into service plans

Risk Management is considered in all reports to Corporate Leadership Team and Members

Formal Risk assessment is required for decisions on strategic issues or which seek approval for significant projects and funding

Reported to Audit Committee

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 25 NOVEMBER 2013

REPORT OF HEAD OF INTERNAL AUDIT PARTNERSHIP

Report prepared by Brian Parsons

1. INTERNAL AUDIT - INTERIM REPORT

1.1 Issue for Decision

1.1.1 To consider whether the report provides evidence of an adequate and effective Internal Audit service.

1.1.2 The report provides details of the work of the Internal Audit team between April and September 2013. The Audit Committee is asked to agree that the work provides evidence of an adequate and effective internal audit.

1.2 Recommendation of Head of Audit Partnership

1.2.1 That the Audit Committee agrees that the audit process is working effectively and that management is taking the necessary action to implement agreed audit recommendations.

1.3 Reasons for Recommendation

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

1.3.2 Internal Audit is a statutory service under the Accounts and Audit Regulations 2011, which state that the Council 'must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

1.3.3 The adequacy of the control environment is a key governance issue. Therefore, the Audit Committee needs to be satisfied with the audit arrangements and to be aware of the issues arising from audit work.

- 1.3.4 Within its Terms of Reference, the Audit Committee needs to 'consider summaries of specific audit reports'. Furthermore, the Audit Committee needs to be satisfied that the audit process is working efficiently and that management is taking the necessary action to implement agreed audit recommendations.
- 1.3.5 Eight planned audit projects were completed between April and September 2013, together with three additional projects. The audits and the other work are listed at Appendix A.
- 1.3.6 The planned work has been affected by staffing changes within the audit team. In fact the whole team has changed, with a new Audit Manager and a new Senior Auditor (following promotions) and two new auditors, resulting from the promotion of a previous post holder and the retirement of another. Although the recruitment process went smoothly and a very good team has been created, a vacancy period occurred which has meant that three audit projects cannot now be completed within the year. In addition, the change of personnel has inevitably created a degree of disruption and required that the new auditors have gone through a formal induction process as well as needing to get 'up to speed'. The audit plan has therefore been reduced from 36 projects to 31 projects.
- 1.3.7 A summary of each audit project is shown at Appendix B. The outcomes were positive, with control assurance for three projects being 'high', and for four projects being 'substantial', with only one area providing 'limited' control assurance. The definitions for the assurance assessment are shown at Appendix C.
- 1.3.8 The output during the first six months of the year is always substantially lower than for the second half year. This is because April is used to finalise and issue reports for work that was carried out in the previous financial year and because audit staff tend to take much of their annual leave during the first half year, thereby reducing the number of productive days for that period. As mentioned previously, this was exacerbated by staffing changes.
- 1.3.9 The emphasis during the second part of the year will be strongly based around delivering the remainder of the planned audit work. Considerable management attention will be directed to ensuring that the revised plan is achieved. The remaining audit plan, covering the period October 2013 to March 2014, is attached at Appendix D. It is considered that the plan will be fundamentally delivered by the end of March 2014.
- 1.3.10 A follow-up to each report is completed, usually three to six months after the date of issue of each original report. The follow-up allows

progress on implementing the agreed recommendations to be assessed. Eight follow-ups were completed during the period April to September and in all cases, good progress had been made in implementing the recommendations.

1.3.11 The Audit Committee considered and approved the Internal Audit Plan of work for 2013/14 at its meeting on 25 March 2013. The Committee expressly noted that the plan was likely to need to change to reflect changes in the Council's business, risks, operations, systems and controls.

1.3.12 The Committee therefore resolved that the contents of the one-year operational Internal Audit plan be agreed subject to responsive amendments.

1.3.13 A number of changes to the plan have since been made to reflect the five 'lost' audits caused by the staffing changes and to reflect changes to priorities or the need to reschedule the audit for a more suitable time. The five audits that cannot be carried out in 2013/14 due to the impacts on audit resources during the year are shown below. They will be considered for inclusion in next year's plan.

No.	Title	Head of Service	Progress	Comments
1	Declaration of interest (Members)	Head of Policy & Communication	VACANCY	Project cancelled due to vacancy
2	Strategic Asset Management	Head of Finance & Resources	VACANCY	Project cancelled due to vacancy
3	Street Cleansing	Head of Environment & Public Realm	VACANCY	Project cancelled due to vacancy
4	Hazlitt Theatre and Arts Centre	Head of Commercial & Economic Dev.	CANCELLED	Project has been cancelled due to vacancy (and recent contract)
5	Community Right to Challenge	Head of Housing and Community Services	CANCELLED	Project has been cancelled due to vacancy (and limited scope of audit)

1.3.14 Internal Audit now undertakes a number of reviews of MKIP shared services. These reviews provide assurances to all of the Councils that are party to the shared service. The projects allow a particularly effective use of internal audit resources as there are efficiencies in carrying out one audit which covers, say, two Councils rather than two separate audits. The shared service audits that will be carried out by the overall (Mid Kent) audit partnership during 2013/14 are shown at Appendix E.

1.3.15 The six-month Interim Report is principally intended to inform the Audit Committee of the work of the Internal Audit team during the first

half of the financial year. The Annual Report covering the whole of 2013/14 will be provided to the meeting of the Committee on 14 July 2014. It will provide a more detailed review of Internal Audit work and will include an assessment of the Council's overall control environment, in support of the Annual Governance Statement.

1.3.16 There are no significant control weaknesses that have been identified by audit work that need to be brought to the attention of the Audit Committee.

1.4 Alternative Action and why not Recommended

1.4.1 The Audit Committee needs to have an awareness of the work of Internal Audit in the context of its Terms of Reference. The only alternative would be to provide a less detailed report; however this would be at odds with the Council's commitment to transparency.

1.5 Impact on Corporate Objectives

1.5.1 The work of Internal Audit contributes to the quality of the Council's governance arrangements and helps to achieve the objective of Corporate and Customer Excellence.

1.6 Risk Management

1.6.1 Internal Audit reviews the adequacy of the controls that are in place to manage risk. An ineffective or inadequate Internal Audit service would mean that weaknesses in internal control are not identified or rectified.

1.6.2 It is considered that Internal Audit is adequate and effective.

1.7 Other Implications

1.7.1

1.	Financial	X
2.	Staffing	X
3.	Legal	X
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	

- 8. Procurement
- 9. Asset Management

1.7.2 Financial – Internal Audit examines a broad range of functions, systems and risk area, however financial systems are a key element of the Audit Plan. The majority of work on financial systems is carried out in the second half of the financial year.

1.7.3 Staffing – The outcomes of Internal Audit work can impact on the systems and processes administered by the Council’s management and staff.

1.7.4 Legal – Internal Audit is a statutory requirement in accordance with the Accounts and Audit Regulations 2011.

1.8 Conclusions

1.8.1 The report provides details of the work of the Internal Audit team between April and September 2013 and contains evidence of an adequate and effective audit service.

1.8.2 The work of the team will be directed more specifically to achieving the audit plan in the second half of the year.

1.8.3 Although Internal Audit has identified some areas where improvements in controls are required, the relevant Head of Service has taken, or will be taking, the necessary action to improve controls.

1.9 Relevant Documents

1.9.1 Appendices

1.9.2 Appendix A – List of Internal Audit projects issued between 1 April and 30 September 2013.

1.9.3 Appendix B – Summary of Internal Audit reports April to September 2013.

1.9.4 Appendix C – Definitions of control assurance statements.

1.9.5 Appendix D – The remaining audit plan - October 2013 to March 2014

1.9.6 Appendix E – Shared service audits to be carried out by the audit partnership during 2013/14.

1.9.7 Background Documents

Various Internal Audit reports

<u>IS THIS A KEY DECISION REPORT?</u>		<u>THIS BOX MUST BE COMPLETED</u>	
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, this is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			

APPENDIX A

Internal Audit projects completed 1st April 2013 – 30th September 2013 (for more detail please see appendix B).

	Title	Head of Service	Status	Assurance
1	E-Tendering	Head of Finance & Resources	ISSUED April 2013	High
2	Corporate Project Management Framework	Head of Finance & Resources	ISSUED May 2013	Substantial
3	Revs & Bens Shared Service: Application & Assessment	Head of Revenues & Benefits Shared Service	ISSUED June 2013	High
4	Income, Banking & Cash Collection	Head of Finance & Resources	ISSUED June 2013	High
5	CCTV	Head of Housing & Community Services	ISSUED August 2013	Substantial
6	Parking Services Partnership: Car Park Income	Head of Environment & Public Realm	ISSUED August 2013	Substantial
7	Museum: Collections & Artefacts	Head of Commercial & Economic Dev.	ISSUED September 2013	Limited
8	National Fraud Initiative (NFI) 2013-14: Progress Report	Dir. of Regeneration & Communities	ISSUED September 2013	Not applicable
9	Market	Head of Environment & Public Realm	ISSUED September 2014	Substantial

Two additional, non-planned projects have been delivered as follows:

No.	Title	Head of Service	Status
1	Investigation: Benefit Fraud Complaint	Head of Revenues & Benefits Shared Service	ISSUED April 2013
3	Teammate Hosting Project	Head of Audit Partnership	ISSUED September 2014

APPENDIX B

Summary of Internal Reports - April to September 2013:

Service: Procurement
Audit Title: E-Tendering
Report Issued: May 2013

Audit Objectives:

- Establish the processes in place for undertaking tenders, including: inviting expressions of interest; distributing relevant tender documentation; accepting and opening bids; and the evaluation of the bids received.
- Evaluate the adequacy of the controls in place to ensure compliance with the Contract Procedure Rules and, where applicable, the OJEU rules. In particular review the controls provided by the BIPS Delta system.
- Undertake walk-through testing for a sample of tenders to establish whether the controls are working effectively.

Key Findings: From the walk-through testing and evaluation of the process carried out during the audit, it is concluded that there are strong controls in place over the tendering process and that the process complies with the Contract Procedure Rules. No recommendations for service of control improvements have been made in this report.

Level of Assurance Issued: High

Service: Revenues & Benefits
Audit Title: Benefits (Claim Application & Assessments)
Report Issued: May 2013

Audit Objectives:

- To establish whether adequate resources and procedures are in place to ensure compliance with the legislative and performance frameworks;
- To establish whether evidential documentation is correctly retained to support the application and assessment process;
- To verify that adequate controls and procedures are in place to ensure that benefit assessments are correctly calculated prior to payment;

- To establish whether adequate procedures are in place to ensure that benefit claims, amendments and cancellations are processed promptly.

Key Findings: The audit established that sound procedures are in place to ensure that the administration of benefits is in line with statutory guidance and procedures. No recommendations for service of control improvements have been made in this report.

Level of Assurance Issued: High

Service: Finance
Audit Title: Income, Cash Collection and Banking
Report Issued: June 2013

Audit Objectives:

To establish and evaluate the adequacy of controls over the receipt and processing of income received directly by the Council to include cash, cheque, credit & debit card payments and internet payments.

- To establish and evaluate the arrangements in place for the collection and banking of income received by the Council.
- To review arrangements in place to ensure income is held securely and can be accounted for.

Key Findings: The audit findings confirmed that the procedures surrounding the receipt of income, cash collections and banking provide strong controls. No recommendations for service of control improvements have been made in this report.

Level of Assurance Issued: High

Service: Business Improvement
Audit Title: Project Management Framework
Report Issued: June 2013

Audit Objectives:

- To establish the scope and adequacy of the Council's corporate project management framework;
- To test compliance with, and effectiveness of, the framework through the review of a sample of corporate projects.

Key Findings:

Recommendations made in the report were designed to address inconsistent application of the project management framework, and to assist in the mitigation of potential risks:

- To agree a reporting process to better capture projects across the Council that are of a 'medium' level – and to consider the appropriateness of the current project 'type' classification parameters within the toolkit;
- To provide guidance to define the key responsibilities of project team roles assurance officers, and project structure;
- To progress and implement an agreed procedure for providing independent project / quality assurance;
- To review and refresh the project management toolkit – in particular to incorporate any changes arising from findings from the audit;
- To consider the findings resulting from an officer survey relating to project management training, skills and competencies.

Level of Assurance Issued: Substantial

Management Response Summary:

All recommendations have been accepted, and realistic targets set for the implementation of management actions.

Notable actions to be taken include a review and refresh of the Council's project management toolkit, and the allocation of work within Business Improvement to devise/implement a project quality assurance approach, and a lessons learned log/register.

Proposed Date for Follow-up: To be completed April 2014

Service: Environment and the Public Realm
Audit Title: Market
Report Issued: September 2013

Audit Objectives:

- To establish whether all income received is properly charged, collected, receipted, accounted for and banked.
- To identify and evaluate the controls over the main sources of expenditure, including value for money controls

- To review the registration process of market traders and consider whether adequate records are held on the traders' identity and their entitlement to trade.
- To establish the arrangements for customer and stallholder health and safety and security
- To consider Trading Standards compliance and customer complaints/satisfaction during the past year

Key Findings: Controls over income and expenditure are strong. Income is being correctly collected, receipted and reconciled for banking on a daily basis and there are no long standing debts awaiting collection. It was noted that current budget indications show that 2013/14 income would have a shortfall which will need to be addressed. All expenditure is approved by an authorised officer and is within budget.

The registration and documentation of market traders is good and records management procedures are secure. The day to day operation of the market runs smoothly in line with Trading Standards requirements and Health and Safety legislation.

Level of Assurance Issued: Substantial

Management Response Summary: Both recommendations were accepted. It is proposed to reduce the market income budget for 2014/15 subject to cabinet and council approval. The improved administration recommendation is in place.

Proposed Date for Follow-up: To be completed March 2014

Service: Parking Services
Audit Title: Car Park Income & Season Tickets (Maidstone & Swale)
Report Issued: September 2013

Audit Objectives:

- To establish and evaluate the financial controls over the secure collection and reconciliation of car parking pay and display income;
- To determine the adequacy of controls over the administration and payments for season tickets;
- To establish and evaluate the arrangements in place to monitor and report the performance of car parking operations, including income;

Key Findings: The physical controls over cash and banking arrangements are satisfactory. Car park revenue is appropriately secured and banked in a timely manner at both Maidstone & Swale. Procedures exist over the reconciliation of income but are not consistently applied. There is a need to

implement standardised financial reconciliation procedures across the partnership, and to ensure that income is appropriately allocated and reported.

Additional findings in the audit relate to contract monitoring, maintenance and inspections (of pay and display machines), and the administration of parking permits (Officers and Members).

Level of Assurance Issued: Substantial

Management Response Summary: All of the audit recommendations have been accepted, and management actions outlined for implementation. Realistic targets have been set, with all recommendations to be fully addressed by March 2014.

Key actions include the implementation of partnership reconciliation procedures for parking income, standardisation of contract monitoring controls across the partnership, and review/update of Officer and Member permit procedures.

Proposed Date for Follow-up: To be completed January 2014

Service: Community Services

Audit Title: CCTV

Report Issued: August 2013

Audit Objectives:

- To consider the adequacy of the contract monitoring arrangements over the CCTV contract and whether the service is being delivered in line with the contract terms
- To assess whether the CCTV service is operating in compliance with the CCTV Code of Practice guidelines and statutory requirements
- To consider how mobile CCTV cameras are managed and operated and whether this complies with the CCTV Code of Practice
- To review the adequacy of controls over income and expenditure

Key Findings: The location of cameras within the Borough had not been reviewed to ensure that coverage is appropriate and there is a supporting rationale for the positioning of the cameras in line with the CCTV Code of Practice. Privacy impact assessments had not been undertaken by Medway for the Maidstone Borough. In addition, not all CCTV signage was up to date, and not all monitored areas were adequately signed.

The Council receives income from 3 third parties for the provision of a CCTV service, however this service has not been reviewed and there was no SLA in place with the parties concerned.

The Council had not undertaken a formal risk assessment of the risks arising from the provision of its CCTV service by Medway. In addition, although provisions are in place to provide CCTV services from the Town Hall in the event of an emergency, there is no Business Continuity Plan in place.

Level of Assurance Issued: Substantial

Management Response Summary: The location of CCTV cameras will be reviewed by Medway in consultation with the Council and with other stakeholders, in particular Kent Police. This will include consideration as to whether any privacy impact assessments are needed.

New signs have been purchased and a review of existing signs in the Borough will be undertaken over the next 6 months to identify areas for new signage and areas where signs need to be taken down or replaced.

Existing arrangements with third parties will be reviewed and this will include establishing if the cameras are in the best locations.

The risk register and business continuity arrangements will be reviewed over the next 3 months to ensure that they are adequately documented.

Proposed Date for Follow-up: To be completed April 2014

Service: Museum
Audit Title: Museum Collections
Report Issued: September 2013

Audit Objectives:

- To assess how the museums' store and catalogue the collections, and confirm current progress against plans to account for and catalogue existing collections
- To consider the adequacy of arrangements to protect and secure the collections
- To consider the adequacy of the Museum Acquisitions & Disposals Policy
- To establish how additions or disposals are agreed and managed, and review the appropriateness of any additions or disposals made in the past year, and consider the arrangements for any future disposals.
- To establish the appropriateness of the controls for loaning out and borrowing collections or items and any associated income/charges.

Key Findings:

The key recommendations identified during the audit were that:

- A more detailed programme for undertaking cataloguing should be defined and followed.

- The Council should give consideration to the provision of additional resources to facilitate the completion of the cataloguing programme to help to achieve the objectives of the museum.
- The treatment of VAT on the proceeds from the disposal of items should be reviewed to ensure that VAT is being treated correctly.
- Processes should be put in place to ensure that documented procedures are followed for items loaned out by the museum and the use of the loan out agreements should be reviewed and consistently applied.
- The database used to record artefacts loaned out or disposed of needs to be kept up to date and controls put in place to ensure exit forms are only used as appropriate.
- Records of the work done prior to disposing of an item need to be maintained to demonstrate compliance with the museums policies and the Museum Associations guidelines, and to ensure that this supports the treatment of VAT.
- The Council should give consideration to funding a valuation of, as a minimum, key artefacts or collections. This should include those which are most valuable materially and those which are integral to the collections.

Level of Assurance Issued: Limited

Management Response Summary: Management response due in November 2013

Proposed Date for Follow-up: To be completed in 2014

Additional projects:

Benefit Fraud Complaint: Internal Audit was asked to conduct an independent investigation into an allegation of misconduct received against a Benefit Fraud Officer from a Benefit Claimant being investigated for fraud.

The work involved the assessment of the case file, and interviews with the Officer and Manager.

The complaint was concluded to be unsubstantiated, and the work conducted by the Officer was confirmed as being in line with the agreed procedures of the Council. Therefore, no further action was necessary.

Teammate Hosting: Teammate is the audit management system utilised across the partnership. It enables auditors to work across all sites and share work programmes, etc. Internal Audit has invested in moving to an externally hosted Teammate service. The move to a hosted web environment

has increased flexibility to create more efficient and consistent ways of working across each of the 4 partnership sites.

The implementation was project managed internally by one of the Auditors, and is an example of how the Internal Audit service continues to challenge and innovate its ways of working, in order to provide robust and effective internal audit services.

NFI 2012-13 Progress Report: Internal Audit continues to facilitate the Council's support of the National Fraud Initiative.

It was established that the investigations into data matches for Payroll and Creditors are complete and there have been no issues arising.

Housing Benefits investigations are on-going but the majority have been investigated and closed:

Date Type	Number of matches checked	Closed matches	Matches outstanding	Matches subject to fraud investigation
Housing Benefit claimants	1469	1441	29	13

Overpayments and weekly incorrect benefits identified:

Housing benefits & Council Tax Benefit recorded to date	£51,068
Income Support & Job Seekers Allowance recorded to date	£11,960
Weekly reduction in Housing Benefit and Council Tax Benefit	£1,051

Internal Audit will facilitate the 2013-14 Single Person Discount (SPD) matches which are due to be published in February 2014.

APPENDIX C

Definitions of Assurance Levels

Our opinion on the adequacy and effectiveness of controls for an audited activity is shown as an **assurance level** within four categories. The use of an **assurance level** is more consistent with the requirement for managers (and Members) to consider the degree to which controls and processes can be relied upon to achieve the objectives of the reviewed activity. The assessment is largely based on the adequacy of the controls over risks but also includes consideration of the adequacy of controls that promote efficiency and value for money. The definitions of assurance levels are provided below:

Controls Assurance Level	Summary description	Detailed definition
Minimal	Urgent improvements in controls or in the application of controls are required	<p>The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation. This is because key controls do not exist with the absence of at least one critical control or there is evidence that there is significant non-compliance with key controls.</p> <p>The control arrangements are of a poor standard.</p>
Limited	Improvements in controls or in the application of controls are required	<p>The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review. This is because, key controls exist but they are not applied, or there is significant evidence that they are not applied consistently and effectively.</p> <p>The control arrangements are below an acceptable standard.</p>
Substantial	Controls are in place but improvements would be beneficial	<p>There is some limited exposure to risk which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.</p> <p>The control arrangements are of an acceptable standard.</p>
High	Strong controls are in place and are complied with	<p>The systems/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.</p> <p>The control arrangements are of a high standard.</p>

APPENDIX D

The table shows the remaining audit plan of 18 projects to be delivered 1st October 2013 – 31st March 2014.

	Title	Head of Service	Progress
1	Food Safety (Commercial)	Head of Housing & Community Services	Report due to be Issued
2	Freedom of Information	Head of Policy & Communication	Fieldwork completed
3	Accounts Receivable (Debtors)	Head of Finance & Resources	Fieldwork completed
4	Community Safety Grants	Head of Housing & Community Services	Report due to be Issued
5	Public Sector Equalities Duty	Head of Policy & Communication	Report due to be Issued
6	General Ledger: Feeder Systems	Head of Finance & Resources	Brief Issued - November Audit
7	Housing Grants	Head of Housing & Community Services	Brief Issued - November Audit
8	Property Income	Head of Finance & Resources	Brief Issued - November Audit
9	Revs & Bens Shared Service: NNDR: Valuation, Liability & Billing	Head of Revenues & Benefits Shared Service	Scheduled for December 2013
10	HR Shared Service: Recruitment	Head of HR Shared Service	Scheduled for December 2013
11	Commercial Waste Service	Head of Environment & Public Realm	Scheduled for December 2013
12	Homelessness	Head of Housing & Community Services	Provisionally Scheduled for January 2014
13	Treasury Management	Head of Finance & Resources	Provisionally Scheduled for January 2014
14	Procurement	Head of Finance & Resources	Provisionally Scheduled for February 2014
15	Accounts Payable (Creditors)	Head of Finance & Resources	Provisionally Scheduled for February 2014
16	Council Health & Safety	Head of HR Shared Service	Provisionally Scheduled for February 2014
17	Waste Collection: Contract Payments	Head of Environment & Public Realm	Provisionally Scheduled for March 2014

18	Revs & Bens Shared Service: Council Tax: Recovery & Enforcement	Head of Revenues & Benefits Shared Service	Provisionally Scheduled for March 2014
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APPENDIX E

The table highlights shared service assurance. These are projects where a single internal audit is conducted on a partnership or shared service and therefore provides assurance across more than one site.

These projects represent the most effective use of internal audit resources, as each project is delivered within a shorter time budget (due to efficiencies within planning, testing and reporting) and provides assurance to each Authority:

No.	Audit Plan	Audit Title	Head of Service	Status	Assurance
1	Maidstone	Parking Services Partnership: Car Park Income	Head of Environment & Public Realm	ISSUED	Maidstone & Swale
2	Maidstone	Revs & Bens Shared Service: Benefit Application & Assessment (2012-13 testing)	Head of Revenues & Benefits Shared Service	ISSUED	Maidstone & Tunbridge Wells
3	Swale	HR Shared Service: Payroll	Head of HR Shared Services	ISSUED	Maidstone & Swale
4	Tunbridge Wells	Joint Licensing Service (Sevenoaks)	Head of Housing & Community Services	Scheduled for December 2013	Maidstone & Tunbridge Wells
5	Maidstone	Revs & Bens Shared Service: NNDR: Valuation, Liability & Billing	Head of Revenues & Benefits Shared Service	Scheduled for December 2013	Maidstone & Tunbridge Wells
6	Maidstone	HR Shared Service: Recruitment	Head of HR Shared Service	Scheduled for December 2013	Maidstone & Swale
7	Swale	Mid Kent Legal Services:	Head of Legal Partnership	Provisionally scheduled for January	Maidstone, Swale & Tunbridge

		Practice Review		2014	Wells
8	Tunbridge Wells	Revs & Bens Shared Service: Benefit Payments (2013-14 testing)	Head of Revenues & Benefits Shared Service	Provisionally scheduled for January 2014	Maidstone & Tunbridge Wells
9	Maidstone	Revs & Bens Shared Service: Council Tax: Recovery & Enforcement	Head of Revenues & Benefits Shared Service	Provisionally Scheduled for March 2014	Maidstone & Tunbridge Wells

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

25 NOVEMBER 2013

REPORT OF HEAD OF FINANCE & RESOURCES

Report prepared by Paul Holland
Senior Accountant (Client)

1. EXTERNAL AUDITOR'S LETTER TO THE CHAIRMAN

1.1 Issue for Decision

- 1.1.1 To consider the letter from the External Auditor to the Chairman of Audit Committee and the Head of Finance & Resources' proposed action plan with regards to the Collection Fund.

1.2 Recommendation of Head of Finance & Customer Services

- 1.2.1 It is recommended that Audit Committee note the contents of the letter and endorses the Head of Finance & Resources' current actions in relation to the collection fund.

1.3 Reasons for Recommendation

- 1.3.1 The letter from the External Auditor, attached as Appendix A, confirms the details of the matters that were outstanding that needed to be resolved prior to the formal issuing of the audit opinion on the Statement of Accounts for 2012/13. These issues were outstanding at the time Audit Committee considered the Statement at the last meeting on September 16th 2013.
- 1.3.2 These issues were addressed to the satisfaction of the External Auditor, and an unqualified audit opinion was issued. The attached letter details the adjustments that were made to the Statement of Accounts, none of which had an impact on the financial resources of the Council.
- 1.3.3 The letter does however raise one issue with regards to the Collection Fund that requires further action to be taken by officers, which is detailed further in the next section of this report.

1.4 Collection Fund

- 1.4.1 As the Committee was advised at its meeting on September 16th 2013 the External Auditors had not been provided with working papers to support debtors and creditors figures in the Collection Fund. These working papers were subsequently provided in time for the External Auditor to issue his audit opinion.
- 1.4.2 However there does remain a level of uncertainty over the figures that were submitted. There was an issue identified that meant that figures in the Council's Financial Management System and system used by the Revenues section did not reconcile. These were not material figures and an unqualified audit opinion was issued, but the External Auditor has raised concerns in his letter over this situation.
- 1.4.3 Officers have acknowledged the External Auditor's concerns and commenced an investigation of the imbalance. The difference in relation to Business Rates has been traced to the treatment of an adjustment to the business rates due for collection in 2009/10 which was posted to the wrong account following the completion of the external audit in that year. The difference in relation to Council Tax has not yet been identified. The Head of Finance & Resources is completing a reconciliation of cash receipts for the last three years in order to resolve the difference. In both cases correcting entries to the balance brought forward will be complete prior to the commencement of the 2013/14 statement of accounts.

1.5 Alternative Action and why not Recommended

- 1.5.1 The requirement to approve the Statement of Accounts is a statutory requirement and therefore no alternative action is recommended as the Committee needs to be assured that the information submitted to the External Auditor is sufficiently robust for their purposes.

1.6 Impact on Corporate Objectives

- 1.6.1 None.

1.7 Risk Management

- 1.7.1 Failure to achieve an unqualified Audit Opinion represents a reputational risk to the Council, therefore the Committee needs to seek assurances from officers that the information in key financial systems is adequate for the purposes of the Statement of Accounts.

1.8 Other Implications

- 1.8.1

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety
7. Human Rights Act
8. Procurement
9. Asset Management

1.9 Relevant Documents

1.9.1 Appendix A – Letter from the External Auditor the Chairman of the Audit Committee.

1.10 Background Documents

1.10.1 None.

IS THIS A KEY DECISION REPORT?

Yes

No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because:

.....

Wards/Parishes affected:

.....

Councillor Rodd Nelson Gracie
Maidstone Borough Council
Maidstone House
King Street
Maidstone
ME15 6JQ

30 September 2013

Dear Cllr. Nelson Gracie

Audit Opinion on Maidstone Borough Council's Financial Statements 2012/13

We presented our Audit Findings Report at the Audit Committee meeting on 16th September 2013. At that time there were a number of outstanding matters that needed to be resolved before we could issue our audit opinion on the Council's financial statements for 2012/13. Following that meeting progress has been made in finalising these matters, and we intend to issue an unqualified audit opinion on 30th September 2013.

As a result of the additional work, some further audit findings have emerged, and we need to bring the following matters to your attention.

1. Uncertainty in accounts

In our Audit Findings Report we reported that we had not been provided with working papers to support debtors and creditors in respect of the collection fund. Officers provided these working papers on the 24th September. Audit review resulted in further revision and identified an uncertainty over the value of council tax arrears and the recorded creditor in the balance sheet in respect of non-domestic rates. The working papers provided to support the balance sheet entries for council tax and NNDR did not agree to the accounts presented to members. On further investigation, we determined that Academy as the prime system did not agree with the produced working papers or the accounts.

Officers have not been able to reconcile the balances in the council's main financial system to those recorded in the subsidiary revenues system. Officers cannot currently explain the differences and acknowledge the need to investigate the issues further.

The resulting impact of the differences between the two systems is a level of uncertainty over the Balance Sheet entries for council tax and non-domestic rates, amounting to £247k and £955k respectively.

These amounts are not material to the financial statements, but with any uncertainty, there is always a note of caution. On consideration, we have concluded this uncertainty is not material and will not impact on our audit opinion. We have sought further assurances from officers on this issue in a revised letter of representation.

2. Adjustments to the financial statements

Officers made a number of changes to the draft accounts submitted for audit to correct errors relating to the Balance Sheet entries for Council Tax and Non-Domestic Rates. These changes were reflected in the Statement of Accounts presented to the Audit Committee on 16th September 2013. At this date we had not reviewed the amended financial statements, as we were waiting for the supporting working papers as noted above. Further changes to the accounts were made following the auditors' review of working papers provided on 24th September 2013.

The table below sets out amendments to the draft Statement of Accounts presented for audit on 5th July 2013, and further changes to these balances made since the accounts were approved by the Audit Committee on 16th September 2013.

Balance Sheet

	Draft Accounts (05/07/2013) £000	Audit Committee (16/09/2013) £000	Final Position (30/09/2013) £000
Short Term Debtors	14,096	13,797	11,555
Short Term Creditors	8,357	9,206	6,882

Other changes made to correct errors in the Collection Fund disclosure notes are set out below. These changes also arose from the auditors' review of working papers provided on 25th September 2013:

Collection Fund Note 1 – Council Tax

	Draft Accounts £000	Audited Accounts £000
Initial accounts	101,076	101,353
Additional accounts	75,037	75,037
Less: reduced accounts	-74,264	-84,393
	101,849	91,997
Less: amounts written off	-9,852	-278
Net income to Fund	91,997	91,917

The following changes were required following review of the amended Statement of Accounts presented to the Audit Committee on 16th September. These adjustments correct errors which had been previously identified and raised with officers, but had not been accurately reflected in the amended statements:

Note 22 – Financial Instruments

	Audit Committee (16/09/2013) £000	Final Position (30/09/2013) £000	Audit Committee (16/09/2013) £000	Final Position (30/09/2013) £000
	Long Term		Short Term	
Investments				
Loans & Receivables	0	0	13,520	13,520
Available-for-sale financial assets	11	11		
	11	11	13,520	13,520
Bank Overdraft	0	0	0	77
Debtors				
Loans & Receivables	30	30	21,795	5,453
Creditors				
Financial liabilities at amortised cost	0	0	4,909	5,174
Other Long Term Liabilities				
Finance Lease Liabilities	2,124	0	428	0

Note 47 – Cash Flow Statement – Investing Activities

	Audit Committee (16/09/2013) £000	Final Position (30/09/2013) £000
Purchase of short-term and long-term investments	5,000	7,000

Property, Plant and Equipment – Comparative Figures

The prior year balance for property, plant and equipment was changed to achieve consistency with the supporting note:

	Audit Committee (16/09/2013) £000	Final Position (30/09/2013) £000
Property, plant and equipment (2011/12 figure)	62,298	62,103

Yours sincerely

Darren J Wells
Director - Assurance
For Grant Thornton UK LLP

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cc Zena Cooke - Director of Regeneration & Communities

Paul Riley – Head of Finance & Resources

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

25 NOVEMBER 2013

REPORT OF HEAD OF FINANCE & RESOURCES

Report prepared by Paul Holland
Senior Accountant (Client)

1. EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER 2012/13

1.1 Issue for Decision

1.1.1 To consider the External Auditor's Annual Audit Letter covering the year 2012/13. The letter provides a summary of the findings and the conclusions which have arisen during the External Auditor's audit and inspection programme. For 2012/13 the appointed external auditor was Grant Thornton.

1.1.2 Recommendation of Head of Finance & Resources

1.2 It is recommended that Audit Committee note and comment on the External Auditor's Annual Audit Letter to Maidstone Borough Council and make any recommendations to Cabinet.

1.3 Reasons for Recommendation

1.3.1 The annual audit letter, attached as Appendix A, provides a summary of the results of the External Auditor's inspection activity at the Council during 2012/13.

1.4 Issues Raised Within the Assessment

1.4.1 The External Auditor issued an unqualified opinion on the 2012/13 Statement of Accounts, and concluded that proper arrangements were in place to secure economy, efficiency and effectiveness in the use of resources.

1.4.2 The letter also reports that the Council has robust savings plans in place to offset continuing financial pressures, and that the arrangements for financial resilience are sound. It also stresses that the Council needs to continue to ensure that there are robust governance arrangements in place for partnership working, and

that it needs to carefully consider the potential risks and opportunities for its commercialisation plans.

1.4.3 The letter does raise an issue over elements of the accounts that were not initially supported by working papers. This issue is considered in more detail as part of a separate report on this agenda on the External Auditor’s Letter to the Chairman of the Committee.

1.4.4 It should be noted by the Committee that the additional work undertaken by the External Auditor as a result of the initial lack of working papers did result in an additional audit fee of £3,519. There is sufficient budgetary provision to meet this additional fee

1.5 Alternative Action and why not Recommended

1.5.1 The Committee, and the Council, could choose not to acknowledge the comments made by the External Auditor, but this is an independent view of how the authority is operating. It offers stakeholders an opportunity to gain a view of how the Council is performing in a range of areas including value for money.

1.6 Impact on Corporate Objectives

1.6.1 The Council is committed to delivering on its priorities and securing value for money. This letter is one measure of how successful that commitment is.

1.7 Risk Management

1.7.1 Risk Management forms a key part of the corporate governance arrangements that are assessed as part of the annual audit and are commented on in this letter.

1.8 Other Implications

1.8.1

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety

X

- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management

1.8.2 The financial implications are dealt with within the Appendices.

1.9 Relevant Documents

1.9.1 Appendix A – External Auditor’s Annual Audit Letter 2012/13

1.9.2 Background Documents

None.

IS THIS A KEY DECISION REPORT?

Yes

No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because:

.....

Wards/Parishes affected:

.....



The Annual Audit Letter for Maidstone Borough Council

Year ended 31 March 2013

October 2013

46

Darren Wells

Director

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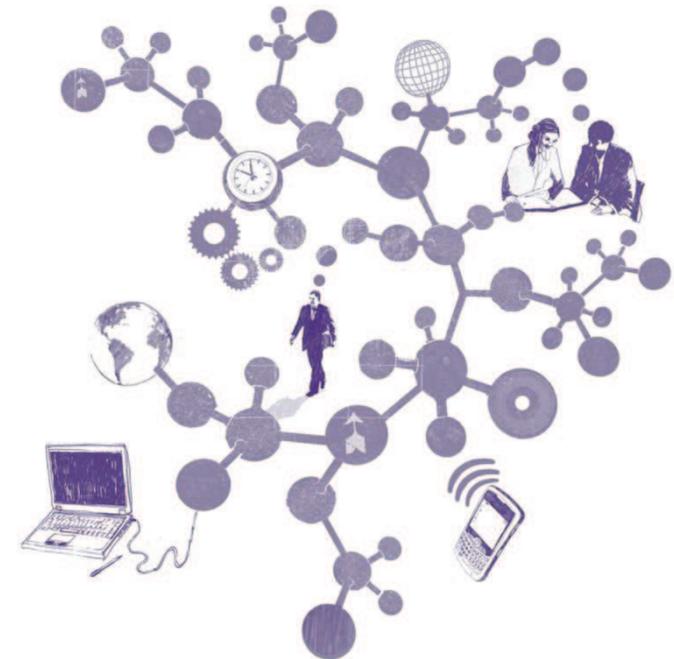
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Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	6
3. Value for Money	9
4. Certification of grant claims and returns	11
Appendices	
A Reports issued and fees	14

Section 1: Executive summary

48

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Maidstone Borough Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

49

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 16th September 2013. Further findings which emerged subsequent to that date were reported to the Chair of the Audit Committee in a letter on 30th September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan we issued on 15th July 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

We also:

- completed a "short form" assurance statement on the council's Whole of Government Accounts submission, confirming the relevant entries were consistent with the audited statutory accounts
- certified the Council's NNDR3 return which was signed off without amendment or qualification. Our work on the housing benefit and council tax benefit subsidy claim, which has a deadline of 30 November, is still in progress.

Executive Summary

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

We issued an unqualified opinion on the Council's financial statements on 30th September 2013, the deadline date set by statute. Difficulties were experienced during the audit with elements of the accounts not supported by working papers until late in September. The Council will need to continue to work proactively with auditors to ensure the timely provision of the draft financial statements and supporting working papers. This will be particularly important given the increasing demands on officers to understand and implement changes to the financial reporting framework which are proposed over the coming years.

50

The Council reported an underspend against its revenue budget for 2012/13 and has continued to implement robust savings plans to offset the financial pressures it faced. The Council's arrangements for financial resilience are sound. Given its partnership working and increasing focus on commercialisation, we have highlighted that:

the Council needs to continue to ensure that there are robust governance arrangements in place for partnership working, and that the arrangements entered into will continue to support delivery of corporate priorities and objectives; and

- carefully consider the potential risks and opportunities for commercialisation plans under the Localism Act, and incorporate the impact of schemes adopted into its medium term financial planning.

Like other local authorities, the Council has responded to legislative changes through implementation of plans under the Localism Act which have transformed the way in which services are funded. These include local retention of business rates and localisation of council tax support from 1st April 2013.

Acknowledgements

This Letter has been agreed with the Director of Regeneration and Communities and will be presented to Audit Committee on 25th November 2013.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

51

- 01. Executive summary
- 02. Audit of the accounts**
- 03. Value for Money
- 04. Certification of grant claims and returns

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented draft accounts for audit on 5th July 2013, five days later than the statutory deadline. Working papers were available from the start of the audit fieldwork, but were not complete. Your previous auditors commented adversely on the quality of working papers in 2011/12.

In 2012/13, there was an overall improvement in the quality of the draft accounts and supporting working papers presented for audit. Nevertheless, this must remain an area for further improvement.

Issues arising from the audit of the accounts

We presented our audit findings report to the Audit Committee on 16th September 2013. We noted at the time of reporting, officers had not provided working papers to support balance sheet entries for council tax and non domestic rates. Working papers were subsequently provided on 24th September 2013. Audit review identified differences between the accounts presented to members in September, the supporting working papers and reports from the underlying revenue systems. We were not able to understand fully the reasons for these differences and reported a level of uncertainty over the balance sheet figures for council tax and NNDR of £247k and £955k respectively. Further assurances were sought from officers on this issue in a revised letter of representation. Notwithstanding the above, a number of amendments to debtor and creditor balances were required in order to correctly reflect the agency arrangements applicable to collection fund entries and comply with the requirements of the Code. These had the impact of reducing debtors on the Council's balance sheet by £2541k and creditors by £1475k.

Annual governance statement

Our review of the annual governance statement concluded it was consistent with our knowledge of the Council and the Council had complied with the six principles of effective governance, as determined by CIPFA/SOLACE.

Whole of Government Accounts

We issued an assurance statement to the NAO and DCLG on 2nd October 2013, confirming the consolidation pack was consistent with the Council's financial statements.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 16th September 2013 and further reported on 30th September in a letter to the Chair of the Audit Committee. The difficulties encountered has resulted in additional audit fees (Appendix A).

We issued an unqualified opinion on the Council's 2012/13 accounts on 30th September 2013, having determined the level of uncertainty as noted was not material. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

The Council is required to publish its audited accounts with the audit report on its website by 30th September. It missed this due to work up to the 30th September.

Audit of the accounts

Key areas for Council action

Key issues arising from our audit for future management focus include:

- investigating the reasons for discrepancies between the Council's main financial ledger and revenues system, to resolve before the completion of 2013/14 accounts preparation;
- reviewing working practices to ensure the issues identified do not recur in the future;
- the number of disclosure amendments in the accounts required as a result of the audit is relatively high in comparison with other local authorities; and
- the Council's external valuer provided timely information in respect of asset valuations, however they were not asked to provide a global impairment review of the Council's asset portfolio.

53

Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

54

Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to effectively manage financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We reviewed the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Overall our work concluded despite the challenging financial environment and sustained period of budgetary constraint, the Council has continued to exercise a prudent medium term financial strategy. Financial planning and budget monitoring processes are robust, and savings targets were achieved in 2012/13. Savings targets for the next three years remain challenging and further financial savings will need to be identified.

Challenging economy, efficiency and effectiveness

We reviewed whether the Council had prioritised its resources to take account of the tighter constraints it is required to operate within and whether it had achieved cost reductions and improved productivity and efficiency

Our work highlighted that the Council's arrangements to secure value for money operated effectively and we had no further recommendations for improvement.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Certification of grant claims and returns

56

- 01. Executive summary
- 02. Audit of the accounts
- 03. Value for Money
- 04. Certification of grant claims and returns**

Certification of grant claims and returns

Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified the Council's return for national non-domestic rates without amendment or qualification by the government deadline of 27 September 2013.

Other work on certification of grant claims is on-going. Our work to date has not identified any issues which we wish to highlight. The detailed findings of our work will be reported in our Grant Certification report upon completion of our work

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Appendices

58

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and grant claim certification work. No non-audit services were provided to the council during 2012/13.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	66,400	69,919*
Grant certification fee	17,600	tbc
Total fees	84,000	tbc

Fees for other services

Service	Fees £
None	Nil

*An additional audit fee of £3,519 plus VAT has been proposed as a result of the additional input required from the audit team in order to deliver the audit opinion by the statutory deadline. It should be noted that the fee should not be considered final until approval has been given by the Audit Commission.

59

Reports issued

Report	Date issued
Audit Plan	15/07/2013
Audit Findings Report	16/09/2013
VfM – Financial Resilience Report	16/09/2013
Annual Audit Letter	28/10/2013
Certification report	TBC



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MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

25 NOVEMBER 2013

REPORT OF HEAD OF FINANCE & RESOURCES

Report prepared by John Owen

1. TREASURY MANAGEMENT HALF YEARLY REVIEW 2013/14

1.1 Issue for Decision

1.1.1 This report sets out the activities of the Treasury Management function for the 2013/14 financial year in accordance with CIPFA's Code of Practice on Treasury Management. The Code suggests that members should be informed of Treasury Management activities at least twice a year.

1.2 Recommendation of Head of Finance & Customer Services

1.2.1 That the Audit Committee notes the position as at 30th September 2013, as detailed with the report.

1.2.2 That the Audit Committee agrees no amendments to the current procedures are necessary as a result of the review of activities in 2013/14 to date.

1.3 Reasons for Recommendation

1.3.1 The council adopted and incorporated the CIPFA Code of Practice on Treasury Management within its Financial Regulations. The Code covers the principles and guidelines relating to borrowing and investment operations.

1.3.2 In March 2013, the council approved a Treasury Management Strategy for 2013/14. The Strategy requires members to be kept informed of Treasury Management activities through a mid year review and an annual report, as well as a quarterly update within the budget monitoring report.

1.3.3 The Strategy for 2013/14 set out the following changes from the previous year's strategy, which are listed as follows:-

- a) The use of £3m core cash deposits limits with part nationalised institutions can be greater than one year if rates are at a premium over predicted base rates and funds are available for the term.
- b) The use of enhance cash funds which is an extension to the current AAA rated money market funds. These offer higher yields to money market funds due to giving short term notice to withdraw funds.
- c) The assumption is to borrow up to a maximum of £6m through the most economically advantageous method, as decided by the Head of Finance & Resources, from: internal borrowing of core cash balances; PWLB loans; or other reputable sources of lending.

1.4 **2013/14 Overview**

Economic Overview

The first six months of 2013/14 has shown the following:-

- Indicators suggested that the economy has accelerated
- Household spending has increased again.
- Inflation has fallen back towards the 2% target.
- Growth has been confirmed for the second quarter at +0.7%.

The council's current Treasury Advisors, Capita Asset Services, formerly Sector Treasury Services, provide the following rates of forecast up to March 2017.

	NOW	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25
3 month LIBID	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.90	1.00
6 month LIBID	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.70	0.80	1.00	1.20	1.40
12 month LIBID	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.90	1.00	1.20	1.40	1.60	1.80	2.00
5 yr PWLB	2.50	2.50	2.50	2.60	2.70	2.70	2.80	2.80	2.90	3.00	3.20	3.30	3.50	3.60	3.70
10 yr PWLB	3.70	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10	4.20	4.30	4.40	4.50	4.60	4.60
25 yr PWLB	4.40	4.40	4.40	4.40	4.50	4.50	4.60	4.70	4.80	4.90	5.00	5.10	5.10	5.10	5.20
50 yr PWLB	4.50	4.40	4.40	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.10	5.20	5.20	5.20	5.30

The bank rate forecast has been revised with the first increase changing from Q4 to Q3 2016. This is due to a managed resolution to the Eurozone crisis and Europe being the UK's biggest export market.

MBC Overview

Reference to the above strategy points, It can be confirmed:-

- a) None of the £3m core cash has been invested longer than one year due to the longer term rates being at a sufficient level to tie up funds for this time.
- b) Two Enhanced Cash Funds have been opened, with Ignis Asset Management and Federated (formally Prime Rate). Initially the rates have been quite low so a minimum balance was deposited. However, rates have started to increase so larger deposits, within the investment criteria, have been deposited.
- c) There have been no investment opportunities so far within the year which has necessitated the Authority to borrow funds.

Actions of the Authority up to 30th September 2013

- All investments have been invested on a short term basis (up to one year), as agreed within the Strategy.
- £3m has been invested with Lloyds TSB (part nationalised bank) for 1 year.
- The current balance on investments as at 30th September 2013 is £28.4m. These are listed within **Appendix A**.
- £16.9m of investments are in accounts which can be called upon immediately or for a short notice period.
- Investment income is still below target with a balance of £119k compared to a budget of £125k. This is due to investment rates falling as financial institutions do not need additional funding due to surplus cash from Government to assist small and medium enterprises.

1.5 **Annual Investment Strategy**

The Treasury Management Strategy for 2013/14 was approved by Council in March 2013. The Council's Annual Investment Strategy, which is incorporated within the Council's Strategy outlines the council's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

The Council will aim to achieve optimum return on investments with proper levels of security and liquidity. It was agreed to keep investments short term with highly credit rated financial institutions, using the credit worthiness list and information provided by Capita Asset Services as well as being mindful of market intelligence.

1.6 **Borrowing**

There has been no need for borrowing within the first half of 2013/14, however there is still a provision to borrow up to £6m if necessary.

1.7 **Prudential Indicators**

It is a statutory duty for the council to determine and keep under review the Affordable Borrowing Limits. These are listed within **Appendix B**.

1.8 **Cash Management**

The major element of the council's Treasury Management function is the management on the daily basis of the cash requirements of the council. The policy objectives in this respect are:-

- The minimisation of the daily credit bank balance. Subject to clearance of monies overnight;
- Interest earned on investments should be maximized subject to **security** of funds being paramount;
- Interest paid on borrowing should be minimized;
- Adequate funds should be available to meet precept payments and other payments as they fall due;
- Cash management activities are carried out in accordance with the agreed Treasury Management Strategy.

1.9 **Alternative Action and why not Recommended**

1.9.1 No alternative action is proposed relating to the historic activity covered in this report.

1.10 **Impact on Corporate Objectives**

1.10.1 The Treasury Management Strategy will impact upon all corporate objectives through the resource it provides from the investment of the council's balances. These resources are incorporated in the council's budget.

1.11 **Risk Management**

1.11.1 Risk Management is included within the Treasury Management Practices which the council adheres to. The main risks to the council are counterparty risk, liquidity risks and interest rate risks which are closely monitored on a regular basis using the council’s treasury advisors, Capita Asset Management, and other market intelligence. If there is a possibility of a negative risk, the appropriate action is taken.

1.12 **Other Implications**

1.12.1

1. Financial	X
2. Staffing	
3. Legal	X
4. Equality Impact Needs Assessment	
5. Environmental/Sustainable Development	
6. Community Safety	
7. Human Rights Act	
8. Procurement	
9. Asset Management	

1.12.2 **Appendices**

Appendix A – List of Investments
Appendix B – Prudential Indicators

Background Documents

None.

IS THIS A KEY DECISION REPORT?

THIS BOX MUST BE COMPLETED

Yes

No

If yes, this is a Key Decision because:

.....

Wards/Parishes affected:

.....

MAIDSTONE BOROUGH COUNCIL
INVESTMENTS AS AT 30 SEPTEMBER 2013

Type of Investment/Deposit	Counterparty	Issue Date	Maturity Date	Amount Invested £	Current Interest Rate %	Credit Limits	
						Maximum Deposit £	Suggested Term
Call account	Svenska Handelsbanken 35 Day Notice			3,000,000	0.60	3,000,000	6 mnths
Call account	Nat West Bank			3,500,000	0.75	8,000,000	1yr
Call account	Nat West Bank 95 Day Notice			4,500,000	0.90	8,000,000	1yr
Call account	Lloyds Bank 95 Day Notice			2,000,000	0.75	8,000,000	1yr
Money Market Fund	Ignis Asset Management			1,600,000	0.43	8,000,000	2 yrs
Enhanced Money Market Fund	Ignis Asset Management			1,000,000	0.58	8,000,000	2 yrs
Enhanced Money Market Fund	Federated Prime Rate			7,800,000	0.57	8,000,000	2 yrs
Fixed Term Deposit	Lloyds TSB Bank	12/08/13	11/08/14	2,000,000	1.01	8,000,000	1yr

PRUDENTIAL INDICATORS

Ratio of Financing Costs to Net Revenue Stream

2012/13 Actual %	2013/14 Estimate %	2013/14 Actual %
-2.0	-1.1	-0.6

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure. As there is no borrowing this shows as a negative figure as it is based on

Incremental Impact of Capital Investment Decisions on the Council Tax

	2012/13 Actual £,000	2013/14 Estimate £,000	2013/14 Actual £,000
i) Forecast of total budgetary requirement no changes to capital programme	5,008	5,612	1,650
ii) Forecast of total budgetary requirement after changes to capital programme	5,008	6,057	2,095
iii) Additional Council Tax Required in £.p.	0.43	0.32	0.32

Demonstrates the affordability of the capital programme. It also demonstrates the impact of the capital programme upon the Council Tax.

Capital Expenditure

2012/13 Actual £,000	2013/14 Estimate £,000	2013/14 Actual £,000
5,008	6,057	2,095

This is the actual capital expenditure against the estimate for 2013/14

Capital Financing Requirement

2012/13 Actual £,000	2013/14 Estimate £,000	2013/14 Actual £,000
50,997	54,274	49,253

This is a measure of the capital expenditure incurred historically by the council that has yet to be financed.

Authorised Limit for External Debt

	2012/13 Actual £,000	2013/14 Estimate £,000	2013/14 Actual £,000
Borrowing	0	10,000	0
Other Long Term Liabilities	5,891	5,856	5,681
Total	5,891	15,856	5,681

This limit is the main limit set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003. No borrowing was undertaken so no limits were breached.

Operational Limit for External Debt

	2012/13 Actual £,000	2013/14 Estimate £,000	2013/14 Actual £,000
Borrowing	0	6,000	0
Other Long Term Liabilities	5,891	5,856	5,681
Total	5,891	11,856	5,681

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing as perceived as not necessary on a day to day

Upper Limit for Fixed Interest Rate Exposure

2012/13 Actual %	2013/14 Estimate %	2013/14 Actual %
93	100	71

This is the maximum amount of net borrowing and investment that can be at a fixed rate. Due to the nature of the council's cashflows it is likely that this limit will only be approached towards the end of the financial year when there are less surplus funds available for short term investment.

Upper Limit for Variable Interest Rate Exposure

2012/13 Actual %	2013/14 Estimate %	2013/14 Actual %
62	80	69

This is the maximum amount of net borrowing and investment that can be at a variable rate. The limit set reflects the fact that during the year there can be excess surplus funds available for short term investment. These arise from timing differences between receipts received and

Principal Invested for more than 364 Days

2012/13 Actual £,000	2013/14 Estimate £,000	2013/14 Actual £,000
2,000	3,000	3,000

This indicator shows the Council have not breached the limit agreed by Council within its Treasury Management Strategy 2013/14

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

Work Programme

2013/14

69



Agenda Item 13

Date of Meeting	Title of Report	Contact Officer
10 June 2013	Property Investment	Paul Riley, Head of Finance and Resources
15 July 2013	Benefit Fraud Annual Report 2012/13	Stephen McGinnes, Head of Revenues and Benefits
15 July 2013	Internal Audit Annual Report 2012/13	Brian Parsons, Head of Audit Partnership
15 July 2013	Audit Committee Annual Report 2012/13	Jennifer Daughtry, Audit Manager
15 July 2013	Audit Committee Member Skills	Brian Parsons, Head of Audit Partnership
15 July 2013	Treasury Management Annual Report 2012/13	Paul Riley, Head of Finance and Resources
15 July 2013	External Auditor's Opinion Audit Plan 2012/13	Paul Riley, Head of Finance and Resources
15 July 2013	External Auditor's Audit Progress Report 2012/13	Paul Riley, Head of Finance and Resources
15 July 2013	External Audit Fees 2013/14	Paul Riley, Head of Finance and Resources
15 July 2013	Museum East Wing Project Review	Alison Broom, Chief Executive
12 August 2013	Local Code of Corporate Governance - Update	Paul Riley, Head of Finance and Resources
12 August 2013	Annual Governance Statement 2012/13	Angela Woodhouse, Head of Policy and Communications
12 August 2013	Statement of Accounts 2012/13	Paul Riley, Head of Finance and Resources
16 September 2013	Internal Audit Charter	Brian Parsons, Head of Audit Partnership
16 September 2013	External Auditor's Audit Findings Report 2012/13 and Statement of Accounts 2012/13	Paul Riley, Head of Finance and Resources
25 November 2013	Internal Audit - Six Monthly Interim Report	Brian Parsons, Head of Audit Partnership

25 November 2013	External Auditor's Letter to the Chairman	Paul Riley, Head of Finance and Resources
25 November 2013	External Auditor's Annual Audit Letter 2012/13	Paul Riley, Head of Finance and Resources
25 November 2013	Treasury Management Strategy Mid-Year Performance 2013/14	Paul Riley, Head of Finance and Resources
25 November 2013	Annual Governance Statement Action Plan Update	Angela Woodhouse, Head of Policy and Communications
January TBA	Treasury Management Strategy 2014/15	Paul Riley, Head of Finance and Resources
January TBA	Review of Risk Assessment of Budget Strategy 2014/15 Onwards	Paul Riley, Head of Finance and Resources
3 March 2014	Certification of Financial Claims and Returns	Stephen McGinnes, Head of Revenues and Benefits
3 March 2014	External Auditor's Progress Report - March 2014	Paul Riley, Head of Finance and Resources
3 March 2014	Internal Audit Operational Plan for 2014/15	Brian Parsons, Head of Audit Partnership
3 March 2014	Audit Committee Member Skills	Brian Parsons, Head of Audit Partnership
3 March 2014	Review of Corporate Policies	Brian Parsons, Head of Audit Partnership
3 March 2014	Strategic Risk Register – Action Plans	Brian Parsons, Head of Audit Partnership
3 March 2014	Review of Financial Thresholds in the Contract Procedure Rules	Paul Riley, Head of Finance and Resources
3 March 2014	Update on Enhanced Scrutiny Arrangements and Public Meetings	Angela Woodhouse, Head of Policy and Communications