

# AGENDA

## AUDIT COMMITTEE MEETING



Date: Monday 15 July 2013  
Time: 6.30 p.m.  
Venue: Town Hall, High Street,  
Maidstone

Membership:

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

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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 10 June 2013

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**Continued Over/:**

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**Issued on 5 July 2013**

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact DEBBIE SNOOK on 01622 602030**. To find out more about the work of the Committee, please visit [www.maidstone.gov.uk](http://www.maidstone.gov.uk)

*Alison Broom*

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

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## **PART II**

**To move that the public be excluded for the item set out in Part II of the Agenda because of the likely disclosure of exempt information for the reasons specified having applied the Public Interest Test.**

<b><u>Head of Schedule 12A and Brief Description</u></b>		
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	1 – Individual	
	3 – Financial/Business Affairs	

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

#### **MINUTES OF THE MEETING HELD ON 10 JUNE 2013**

**Present:**            **Councillor Nelson-Gracie (Chairman) and  
Councillors Black, Butler, Daley and Mrs Wilson**

**Also Present:**    **Councillor Yates**

1.    APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Warner.

2.    NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Mrs Wilson was substituting for Councillor Warner.

3.    NOTIFICATION OF VISITING MEMBERS

Councillor Yates indicated that he was attending the meeting as an observer.

4.    ELECTION OF CHAIRMAN

RESOLVED: That Councillor Nelson-Gracie be elected as Chairman of the Committee for the Municipal Year 2013/14.

5.    ELECTION OF VICE-CHAIRMAN

RESOLVED: That Councillor Butler be elected as Vice-Chairman of the Committee for the Municipal Year 2013/14.

6.    DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

7.    DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

8.    EXEMPT ITEMS

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

9. MINUTES OF THE MEETING HELD ON 25 MARCH 2013

RESOLVED: That the Minutes of the meeting held on 25 March 2013 be approved as a correct record and signed.

10. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 25 MARCH 2013

1. Minute 93 - Matters Arising from the Minutes of the Meeting Held on 14 January 2013

Minute 81 - Draft Strategic Risk Register

In response to a question by a Member, the Head of Audit Partnership confirmed that action plans setting out how the risks which had been identified would be managed and mitigated where possible would be brought to the next meeting of the Committee.

2. Minute 95 - Audit Committee Progress Report - March 2013

In response to a question by a Member, the Head of Finance and Customer Services agreed to re-run the workshop regarding National Non-Domestic Rates specifically for Members and Substitute Members of the Audit Committee.

11. APPOINTMENT OF POLITICAL GROUP SPOKESPERSONS

RESOLVED: That the following Members be appointed as Spokespersons for their respective Political Groups for the Municipal Year 2013/14:-

Councillor Butler – Conservative Group  
Councillor Daley – Liberal Democrat Group

12. PROPERTY INVESTMENT

The Committee considered a report by the Head of Finance and Customer Services seeking its views on proposed changes to the criteria for prudential borrowing in relation to property investment as agreed by the Cabinet in September 2012. It was noted that the Cabinet had identified three categories of property investment for which prudential borrowing could be utilised to cover capital costs as follows:-

- a) Additions to the Council's commercial property portfolio;
- b) Acquisition of derelict residential properties in order to restore and bring them back into use; and
- c) Strategic investment in order to progress stalled development.

The Cabinet, at its meeting on 12 June 2013, would be asked to agree to the variation of the criteria for prudential borrowing under category b) above to include consideration of the acquisition of property, which is not derelict, where the business case identifies that it would be suitable for use as temporary accommodation for those people who the Council has a

duty to provide emergency housing, thereby reducing reliance upon bed and breakfast accommodation. The Cabinet would also be asked to agree that the business case for such a scheme should include not only the income generated directly by the investment property, but also the reduction in the budget for alternative provision as currently provided by the Council.

The Committee was mindful that the number of households requiring housing assistance had increased considerably in the current economic climate. The net budget provision for temporary accommodation in 2012/13 was £125,000. Net expenditure on temporary accommodation in 2012/13 exceeded £300,000 with over 160 households being placed into bed and breakfast accommodation during that time. A proposal currently being considered would halve the use of bed and breakfast accommodation at a cost to the Council of approximately £50,000 per annum. This would reduce overall outlay by £100,000.

In response to questions by Members, the Officers confirmed that it was the intention that the management of the property would be outsourced to the private sector or a social landlord. If at a future date the property was no longer required, the balance of prudential borrowing would need to be covered from the sale proceeds on disposal. An evaluation of the expected future value of the property would form part of the business case of any scheme brought forward. The Property Team would be asked to look at the suitability of Gatland House for this purpose, if they had not done so already.

**RESOLVED:** That the Cabinet be informed that the Audit Committee raises no objection in principle to the proposed variation of the criteria for prudential borrowing to include the acquisition of property to provide alternative temporary accommodation to the bed and breakfast arrangements used at present subject to the following:-

Consideration being given to a robust and comprehensive business case initially by the Members' Advisory Panel relating to Property Investment in accordance with the governance arrangements previously agreed;

The business case including, inter alia, details of on-costs, staffing costs, conversion/refurbishment costs and early redemption of debt penalties together with an assessment of not only the income generated directly by the proposal but also the reduction in the budget for alternative provision as currently provided by the Council;

Management of the property being outsourced to the private sector or a social landlord and not being undertaken by the Council;

The Community, Leisure Services and Environment Overview and Scrutiny Committee being recommended to ask to be provided with regular updates on homelessness, trends and projections to ascertain whether this initiative is having an impact; and

Regular updates on the use of prudential borrowing to cover the capital cost of acquiring property suitable for use as temporary accommodation as an alternative to the bed and breakfast arrangements used at present being submitted to the Audit Committee.

13. DURATION OF MEETING

6.30 p.m. to 7.10 p.m.

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**MONDAY 15 JULY 2013**

## **REPORT OF DIRECTOR OF REGENERATION AND COMMUNITIES**

**Report prepared by Sheila Daly**

### **1. BENEFIT FRAUD ANNUAL REPORT**

#### **1.1 Issue for Decision**

1.1.1 To note the content of this report which provides a summary of the achievement of the Benefit Fraud Partnership, highlights forthcoming changes and the future of Welfare Reform.

#### **1.2 Recommendation of Director of Regeneration and Communities**

That the report be noted.

#### **1.3 Reasons for Recommendation**

1.3.1 The Fraud and Visiting Partnership was set up in April 2008, bringing together the two investigation teams from Maidstone & Tunbridge Wells. This has since been subsumed into a full Revenues & Benefits Partnership. The primary role of the team is the prevention and detection of Housing Benefit and Council Tax discount fraud and to work within the Anti Fraud Strategies.

1.3.2 Maidstone Borough Council pays out over £55 million in Housing and Council Tax discounts to over 12,000 households.

1.3.3 The Fraud and visiting team staffing complement for the Partnership for the majority of 2012/13 comprised:

0.6 Manager

4.6 Investigators

1.0 Compliance /visiting officer

0.8 Clerical support

However for the last 2 quarters the investigation officers reduced to 2.6 and the clerical support officer was on maternity leave for 3 quarters.

The staffing cost to MBC was £116k

- 1.3.4 How Benefit fraud is detected and the results for 2012/13.
- 1.3.5 Referrals are received from various sources including data matching provided by the Department for Work & Pensions and the National Fraud Initiative. In 2012/13 484 referrals were received for MBC and of these 230 were raised as investigations. The remainder were either passed to the compliance officer for non – criminal informal action or to the DWP Counter Fraud Service for them to investigate further.
- 1.3.6 Results are measured on the number of sanctions applied (Prosecutions, Administrative Penalties and Cautions) and the monetary value of overpayments and weekly benefit savings.
- 1.3.7 In 2012/13 there were 23 sanctions for MBC with a further 10 cases still in the legal system but not finalised. The value of these cases are not included in the following figures:
- Total overpayments found valued £284,572  
 Total face value of weekly benefit saved £5,878. Historically the methodology used by DWP shows that, had it not been for the intervention, the fraud would have continued for a minimum of 32 weeks so this figure should be multiplied by 32 to reflect a true saving to the public purse, thus making a total weekly saving of £188,114.
- 1.3.8 The sample National Fraud Initiative data matching into Single Person discount in July 2012 highlighted savings of £90,907.
- 1.3.9 The total monetary value of fraud found through the local team is therefore £563,594.28.
- 1.3.10 The Council has robust procedures to recover overpayments and penalties and the in year collection rate for benefit overpayments was 76.9%.
- 1.3.11 The team also carried out a much larger exercise with Capita Government Services on the rest of the Single Person database and the results will be available at the next committee meeting.
- 1.3.12 Appendix 1 shows a comparison table against some other Kent authorities on achievement and costs.
- 1.3.13 The number of investigations and how they are registered differs from each authority. MBC & TWBC have a full time compliance officer so those referrals that do not score high enough to be full criminal files are still counted as investigations but are not suitable for sanction because an informal approach is made from the outset.



1.3.14 Also fraud action on referrals where the overpayment is under £600 is not taken, however the overpayment is still recovered. This lower limit was set as the policy as it is not considered cost effective to sanction cases for less than this amount given the resources involved.

#### The Future

1.3.15 The implementation of the Welfare Reform Act and the Single Fraud investigation Service will impact on the team. DWP will be responsible for the administration and investigation of Universal Credit. It is anticipated the Fraud function will transfer in April 2014.

1.3.16 This will leave core functions remaining, the new Local Council Tax scheme including discounts and premiums and any other corporate fraud issues. The Audit Commission publication "Protecting the Public Purse" addresses the future situation and recommends councils are prepared to address the risks in new and emerging fraud, for example Business rates, Discounts on empty homes and Tenancy Fraud.

1.3.17 A business case is currently being completed to assess the feasibility of extending the MBC/TWBC Fraud shared service to encompass Swale BC. It is intended to provide resilience with a core experienced team to investigate the functions that remain with the councils.

#### 1.4 Alternative Action and why not Recommended

1.4.1 The Committee could choose not to receive this annual report but that would limit the Committee's ability to review the performance of the fraud service and would fail to ensure effective arrangements are in place.

#### 1.5 Risk Management

1.5.1 The service represents a key tool in combating the ongoing risk of fraud. A full risk assessment will be undertaken regarding the proposed transfer to the DWP Single Fraud Investigation service.

#### 1.6 Other Implications

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment

X
X

- 5. Environmental/Sustainable Development
- 6. Community Safety
- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management


1.6.1 Staffing will inevitably need to reduce when the administration of benefit payments transfer to the DWP. It is anticipated this will be by 2017.

1.6.2 The CPS will be responsible for prosecuting Universal Credit cases therefore the removal of HB/CT Benefit prosecutions is likely to impact on the legal services' workload.

1.7 Conclusions

1.7.1 The Benefit Fraud service and the partnership arrangement in which it operates maximises income and manages finances effectively and complies with the established best practice.

1.8 Relevant Documents

1.8.1 Appendices Appendix 1 – comparative performance statistics

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

Appendix 1 2012/2013 Audit Report

Comparison stats for Fraud costs and Achievement

	TUNBRIDGE WELLS	MAIDSTONE	SEVENOAKS	DARTFORD	GRAVESHAM	ASHFORD	SWALE
NUMBER OF FRAUD REFERRALS RECEIVED	381	484	257	448	863	490	489
NUMBER INVESTIGATED	276	302	87	104	138	162	396
SANCTIONS GIVEN	16	23	21	23	36	13 (43 other successful outcomes include properties regained?)	52
VALUE OF OVERPAYMENT	£170,308.19	£284,572.02	£235,814.13	278,215.95	£278,215.95	£145,259.36	£280,785.09
VALUE OF WBS	£150,788.08	£188,114.88	N/A	N/A	N/A	£101568.96	N/A
PROPORTION OF RESOURCE FOR HB/CT	90%	90%	85%	80%	70%	60%	100%
STAFF COSTS	£71,472.00	£116,295.80	NOT PROVIDED	NOT PROVIDED	£100,000	3.5 fte	£97,000

# Agenda Item 9

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**15<sup>th</sup> JULY 2013**

### **REPORT OF HEAD OF AUDIT PARTNERSHIP**

**Report prepared by Jennifer Daughtry**

#### **1. Audit Committee – Annual Report 2012/13**

##### 1.1 Issue for Decision

1.1.1 A report has been prepared which sets out how the Audit Committee has discharged its duties during 2012/13. The report provides assurance to the Council that important governance issues are being monitored and addressed by the Committee. The report provides further assurance to support the findings of the Annual Governance Statement.

##### 1.2 Recommendation of the Head of Audit Partnership

1.2.1 That the Audit Committee agrees the content of the annual report as attached at Appendix A.

1.2.2 That the Chairman of the Audit Committee provides the report to a meeting of the Full Council to demonstrate how the Audit Committee has discharged its duties.

##### 1.3 Reasons for Recommendation

1.3.1 The Audit Committee agreed in 2011 that the Committee should produce an annual report of its activities and effectiveness; and that the report should be provided by the Chairman to a meeting of the full Council. The report would provide assurance to the Council that the responsibilities of the Committee are being met. The first Annual Report was produced in 2012.

1.3.2 The Audit Committee is required to obtain assurance on the control environment and the report sets out how this has been achieved.

1.3.3 The report of the Audit Committee provides evidence to support the Annual Governance Statement, which appears elsewhere on the agenda.

1.4 Alternative Action and why not Recommended

1.4.1 The production of an annual report is considered to be good practice. No other option could be recommended.

1.5 Impact on Corporate Objectives

1.5.1 The Audit Committee's role includes consideration of risk, controls and governance across the whole Council. The effectiveness of the Audit Committee therefore has an impact across all of the Council's Corporate Objectives.

1.6 Risk Management

1.6.1 The Audit Committee is a key element of the Council's governance arrangements and plays a particular role in relation to the adequacy of the Council's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements. The Committee needs to be effective and to operate to good practice standards in order to deliver on its responsibilities. A failure to operate in this way would create a risk to the Council that the Committee is not sufficiently effective.

1.7 Other Implications None directly

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




1.7.2 Although there is no statutory requirement for the Council to maintain an Audit Committee, it is considered to be good practice to do so. The effectiveness of the Committee therefore needs to be measured and improvements made where appropriate.

1.8 Relevant Documents

1.8.1 Appendices: Appendix A – Draft Audit Committee Annual Report – 2012/13.

1.9 Background Documents

1.9.1 None

**IS THIS A KEY DECISION REPORT?** - No

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

.....

This is a Key Decision because: .....

.....

Wards/Parishes affected: .....

.....

# Audit Committee Annual Report 2012/13



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**Maidstone Borough Council  
Audit Committee Annual Report – 2012-13**



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I am pleased to introduce the annual report of the Audit Committee, covering the year to 31 March 2013.

The Audit Committee is responsible for reviewing the Council's governance arrangements (both financial and non financial) and seeks to obtain appropriate assurances in these areas.

This is the second Annual Report of the Audit Committee and I am pleased to report that the Committee, under the Chairmanship of Councillor Butler, has continued to build on its strength and effectiveness over the past year.

As outlined in the body of this report, the Committee has been actively engaged with the Council's financial managers, internal auditors and external auditors (Grant Thornton). The Committee has provided oversight and challenge to the Council's operations and internal control environment and provided robust scrutiny and challenge of the Authority's financial and project performance. In carrying out its responsibilities, the Committee has continued to follow best practice and to become increasingly challenging of officers whilst always supporting them in their governance priorities.

I would like to thank all members who served on the Committee during 2012-13 and for the continued support of members during the year ahead. My thanks also go to the Council officers who have supported the work of the Committee.

In looking forward to 2013 - 14 and beyond, and given the continued financial pressures facing the Council, the importance of an effective Audit Committee remains critical. Along with my fellow members I look forward to meeting those challenges which lay ahead.

Councillor Rodd Nelson-Gracie  
Chairman

## 1. Introduction

Whilst there is no statutory obligation to have an Audit Committee, Maidstone Borough Council understands and supports the value of the Committee as an essential component of effective governance. In recent years there has been a significant amount of regulation and guidance issued on governance arrangements for private and public sector bodies, with the common feature of effective governance arrangements being the existence of an independent Audit Committee.

The key purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment; independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment; and to oversee the financial reporting process and approve the Annual Statement of Accounts. The Committee is independent from the Council's Executive and Scrutiny functions and has clear reporting lines and rights of access in order to deliver on its responsibilities. Meetings are held in public, and all Members of the Council as well as members of the public are welcome and encouraged to attend. The meetings are available as a web-cast.[http://www.maidstone.gov.uk/council\\_and\\_democracy/web-casting.aspx](http://www.maidstone.gov.uk/council_and_democracy/web-casting.aspx)

Members of the Committee have a broad range of skills, interests and level of knowledge in financial and risk management, accounting concepts and standards and the regulatory regime. They are also required to demonstrate an independent and unbiased approach and be able to challenge the Executive and senior officers of the Council when required.

Regular attendees at Audit Committee meetings include the Director of Regeneration and Communities (with S151 responsibility), the Head of Finance and Customer Services, the Head of Audit Partnership, the Audit Manager and senior representatives from the external auditor. The Committee also has the ability to call any other officers or agencies of the Council as required.

The role of the Audit Committee differs from that of the Council's Scrutiny Committees in that the role of scrutiny is to review policy and challenge whether the Executive (Cabinet) has made the right decisions to deliver policy goals. The Audit Committee, however, provides independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and affects the control environment, and oversight of the financial reporting process.

The Committee is not a substitute for the Executive function in the management of internal or external audit, risk management, corporate governance, stewardship reporting, internal control or any other review or assurance function. It is the Committee's role to examine these functions, and to offer opinions or recommendations on the way the management of these functions is conducted.

There are many benefits to be gained from an effective Audit Committee. In fulfilling its role the Committee will:

- Raise greater awareness of the need for internal control and the implementation of audit recommendations;
- Increase public confidence in the objectivity and fairness of financial and other reporting;
- Reinforce the importance and independence of internal and external audit and any other similar review process (for example, providing a view on the Annual Governance Statement); and

- Provide additional assurance to the Authority and its stakeholders through the results of its work.

## 2. Terms of Reference and Responsibilities

The Committee's detailed terms of reference are set out in Article 6A of the Council's Constitution and are based on the Chartered Institute of Public Finance and Accounting (CIPFA) model. [http://www.maidstone.gov.uk/pdf/Constitution\\_January%202012.pdf](http://www.maidstone.gov.uk/pdf/Constitution_January%202012.pdf)

However, in summary, the core functions of the Committee are to:

1. Consider the effectiveness of the Authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
2. Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
3. Be satisfied that the Authority's assurance statements, including the Annual Governance Statement properly reflect the risk environment and any actions required to improve it.
4. Approve (but not direct) internal audit's strategy, plan and monitor performance.
5. Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
6. Receive the annual report of the Head of Audit Partnership.
7. Consider the reports of external audit and inspection agencies.
8. Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
9. Review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.
10. Approve the Annual Statement of Accounts

### 3. Membership 2012/13

The Audit Committee comprises five Members of the Council and has a quorum of three. The Committee supports the Executive and Scrutiny Committees in fulfilling the Council's oversight and governance responsibilities through its consideration and approval of the Council's financial statements and financial reporting process, the system of internal controls and risk management and the internal and external audit process. The Committee met on six occasions in 2012/13. Committee agenda papers and minutes are available on the Council's website:

<http://meetings.maidstone.gov.uk/ieListMeetings.aspx?CId=147&Year=2012>

**Cllr Derek Butler**  
Chairman



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**Cllr Mervyn Warner**  
Vice-Chairman



**Cllr Alistair Black**



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**Cllr David Burton**



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**Cllr Fran Wilson**



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#### 4. Committee Attendance 2012/13

The Committee has been well supported throughout the year by both Members and Officers, and attendance records are set out in the table below.

Member/Officer	11/06/12	16/07/12	17/09/12	26/11/12	14/01/13	25/03/13
<b><u>Audit Committee Members</u></b>						
Councillor Derek Butler (Chairman)	Y	Y	Y	Y	Y	Y
Councillor Mervyn Warner (Vice-Chairman)	A	A	Y	Y	Y	A
Councillor Alistair Black	Y	Y	Y	A	Y	Y
Councillor David Burton	Y	Y	Y	Y	Y	Y
Councillor Fran Wilson	Y	Y	Y	Y	Y	Y
<b><u>Substitute Members</u></b>						
Councillor Dan Daley		Y				
<b><u>Visiting Members</u></b>						
Councillor Clive English					Y	
<b><u>Officers</u></b>						
Director of Regeneration and Communities	A	Y	Y	Y	Y	Y
Assistant Dir of Regeneration and Cultural Services	N/A	Y	A	Y	N/A	Y
Head of Finance and Customer Services	Y	Y	Y	Y	Y	Y
Senior Accountant (Client)	N/A	Y	Y	Y	N/A	N/A
Head of Audit Partnership	Y	Y	A	Y	Y	Y
Audit Manager	Y	A	Y	Y	Y	Y
Head of Revenues and Benefits	Y	N/A	Y	N/A	N/A	N/A
<b><u>External Audit</u></b>						
Ellie Dunnet		Y	Y			
Steve Golding		Y	Y	Y		Y
Darren Wells			Y	Y		
<b><u>Democratic Services</u></b>						
Debbie Snook	Y	Y	Y	Y	Y	N/A
Janet Barnes	N/A	N/A	N/A	N/A	N/A	Y

Key: Y = Attendance, A = Apologies Received, N/A = Not Applicable

## 5. The Committee considered the following reports during 2012/13

Function/Issue	Lead Officer/ Body	11/06/12	16/07/12	17/09/12	26/11/12	14/01/13	25/03/13
<b><u>INTERNAL AUDIT ACTIVITY</u></b>							
Audit Committee Annual Report 2011/12	AM			Y			
Internal Audit Annual Report 2011/12	HAP	Y					
Internal Audit – Six Month Interim Report	HAP				Y		
Internal Audit Operational Plan 2013/14	HAP						Y
Risk Management Update	HAP			Y			
Draft Strategic Risk Register	HAP					Y	
Internal Audit Partnership Update	HAP				Y		
Public Sector Internal Audit Standards	HAP						Y
<b><u>EXTERNAL AUDIT ACTIVITY</u></b>							
Audit Commission – Progress Report	EA	Y					Y
Audit Commission's Annual Audit Letter 2011/12	EA				Y		
Certification of Financial Claims and Returns	EA						Y
External Audit Fees 2012/13	EA				Y		
<b><u>REGULARITY FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u></b>							
Benefit Fraud Annual Report 2011/12	HRB	Y					
Annual Governance Statement 2011/12	HFCS	Y					
Treasury Management Annual Report 2011/12	HFCS	Y					
Maidstone Museum East Wing Project Review - Update	ADRCS		Y	Y	Y		Y
Update on Proposed Single Fraud Investigation Service	HRB			Y			
Review of Audit Committee	HAP			Y			
Audit Committee Meetings Schedule	HAP			Y			
Audit Committee Frequency of Meetings	HAP				Y		
Audit Committee – Appointment of Independent Member	HFCS				Y		
Treasury Management Strategy Mid-Year Performance 2012/13	HFCS				Y		
Treasury Management Strategy 2013/14	HFCS					Y	
Review of Risk Assessment of Budget Strategy 2013/14 Onwards	HFCS					Y	
Relationship Between Audit Committee and Corporate Services Overview and Scrutiny Committee	DSO					Y	

Function/Issue	Lead Officer/ Body	11/06/12	16/07/12	17/09/12	26/11/12	14/01/13	25/03/13
<b>ACCOUNTS</b>							
Statement of Accounts 2011/12	HFCS		Y				
Audit Commission's Annual Governance Report and Statement of Accounts 2011/12	HFCS			Y			

### **Key**

- ADRCS** Assistant Director of Regeneration and Cultural Services
- AM** Audit Manager
- DSO** Democratic Services Officer
- EA** External Auditor
- HAP** Head of Audit Partnership
- HFCS** Head of Finance and Customer Services

## **6. Assurance**

The Audit Committee has considered the following areas to assist it in gaining assurance of the governance arrangements within the organisation as part of its annual work programme.

### **Risk Management**

- **Consider the effectiveness of the Authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements**
- **Seek assurance that action is being taken on risk-related issues identified by auditors and inspectors**

This has been achieved by:

- Receiving a report of the Head of Audit Partnership on action to be taken to progress the Council's risk management arrangements.
- The Chair of the Audit Committee attended and participated in Cabinet discussion of the Council's Strategic Risk Register
- Considering the draft Strategic Risk Register prior to Cabinet approval
- Considering the adequacy of the risk based approach to audit planning that led to the creation of the Council's 2013/14 operational audit plan
- Considering Cabinet referral of property investment governance arrangements
- Considering the report of the Head of Finance and Customer Services and agreeing the risk assessment of the Budget Strategy 2013-14 onwards.
- Considering reports of the Assistant Director of Regeneration and Cultural Services on action taken in relation to the Maidstone Museum East Wing project management.
- Considering the report of the Director of Regeneration and Communities with regard to the establishment by the Department of Work and Pensions of a Single Fraud Investigation Service and the financial and operational impact on the Council's Benefits Fraud service.

### Internal Control assurance

- **Be satisfied that the Authority's assurance statements, including the Annual Governance Statement, properly reflect the control environment and any actions required to improve it.**

This has been achieved by:

- Considering the Head of Audit Partnership opinion of internal control for 2011/12 and agreeing the significant issues to be included in the Council's Annual Governance Statement for 2011/12
- Endorsing the Council's Annual Governance Statement for 2011/12 and the action plan prior to reporting to Cabinet
- Considering internal audit assurance – direction of travel reports for ongoing assurance of the adequacy of arrangements for delivering improvement to identified weakness in internal control
- Considering the report of the Director of Regeneration and Communities setting out details of the performance of the Benefit Fraud team during 2011/12 and the implications arising from the Welfare Reform Act and forthcoming introduction of Universal Credit.

### Audit Activity

- **Approve (but not direct) Internal Audit's strategy and audit plan and monitor performance**
- **Review summary Internal Audit reports and the main issues arising , and seek assurances that action has been taken where necessary**
- **Receive the annual report of the Head of Audit Partnership**
- **Consider the reports of external audit and inspection agencies**
- **Ensure there are effective relationships between internal and external audit, and inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.**

### Internal Audit

The Committee has:

- Considered the Annual Report of the Head of Audit Partnership detailing the work of the Internal Audit function during the year and agreed that the Council's internal audit service is effective.
- Agreed the Internal Audit operational Audit Plan for 2013/14
- Noted the progress made by the Internal Audit Partnership at the mid-point of the 5-year agreement and actions proposed to further improve the service.
- Received the interim report setting out the work of Internal Audit for the first half of the year



- Considered Internal Audit reports with regard to those areas providing minimal or limited controls assurance
- Noted the new Public Sector Internal Audit Standards and action to be taken to implement them.

### **External Audit**

The Committee has:

- Received progress reports on the transfer of the Council's External Audit responsibilities to Grant Thornton for the period 2012-17
- Considered and agreed the Audit Plan for 2011/12 and progress reports
- Received and agreed the Annual Audit Letter for 2011/12
- Considered and agreed the certification of grant claim report
- Considered the reduction in external audit fees for the 2012/13 audit and action being taken to mitigate the risk of additional fees being incurred.
- Received a progress report against the 2012/13 external audit plan

<b>Accounts</b>
<ul style="list-style-type: none"> <li>• <b>Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit</b></li> <li>• <b>Approve the Annual Statement of Accounts</b></li> </ul>

The Committee has sought assurance by:

- Receiving and approving the Annual Governance Report for 2011/12 and approving the Letter of Representation to the Audit Commission
- Approving the Statement of Accounts for 2011/12
- Considering the Treasury Management Annual Report 2011/2 and regular status reports
- Considering the 2012/13 Treasury Management Strategy mid-year performance report
- Considering the draft 2013/14 Treasury Management Strategy for submission to Council

## **7. Audit Committee's Effectiveness**

The Committee continued to review its effectiveness during the year and identified opportunities for improvement. This has included:

- Introducing an Annual Audit Committee Report for presentation to Full Council to demonstrate the effectiveness of the Committee by ensuring that important governance issues are being monitored and addressed by the Committee and providing evidence to support the Annual Governance Statement.
- Reviewed progress against the Local Government Improvement and Development (LGID) agency action plan for improvements to the effectiveness of the Committee
- Approved a reduction in the frequency of meetings of the Committee during the municipal year - from 6 to 4 – to ensure the most effective use of its time and scheduling of its work programme and for a date to be set aside in June each year for Member training
- Considering the appointment of an independent member to the Audit Committee and development of a skills and experience matrix for the Committee
- Considered arrangements between the Audit Committee and the Corporate Services Overview and Scrutiny Committee and agreed for the Chairmen and Vice-Chairmen to meet at the beginning of each municipal year to develop complementary work programmes and avoid duplication.
- Adopted a protocol for the referral of matters between the Committee and the Corporate Services Overview and Scrutiny Committee and its members

### **Future Challenges**

The Audit Committee will continue with its existing duties whilst continually striving to achieve best practice where this is feasible and affordable. The Committee will satisfy itself that new external audit arrangements work satisfactorily, following the appointment of Grant Thornton, and that the Council's audit, governance and risk management arrangements continue to be strengthened. Member training and development will continue to be a priority both for the current members and the new members appointed to the Committee at the beginning of the new municipal year.

## 8. Proposed 2013/14 Work Programme

- The Committee faces a challenging year ahead and the Committee's current (draft) work programme for the forthcoming year is set out below.

Function/Issue	Lead Officer/ Body	10/06/13	15/07/13	16/09/13	25/11/13	03/03/14
<b><u>INTERNAL AUDIT ACTIVITY</u></b>						
Audit Committee Annual Report 2012/13	AM		Y			
Internal Audit Annual Report 2012/13	HAP		Y			
Internal Audit – Six Month Interim Report	HAP				Y	
Internal Audit Operational Plan 2014/15	HAP					Y
Strategic Risk Register - Action Plans	HAP			Y		
<b><u>EXTERNAL AUDIT ACTIVITY</u></b>						
External Auditor's Opinion Audit Plan 2012/13	EA		Y			
External Auditor's Audit Progress Report	EA		Y			Y
External Auditor's Audit Fee Letter 2013/14	EA		Y			
External Auditor's Annual Audit Letter 2012/13	EA				Y	
Certification of Financial Claims and Returns	EA					Y
<b><u>REGULARITY &amp; FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u></b>						
Property Investment	HFR	Y				
Fraud Annual Report 2012/13	HRB		Y			
Local Code of Corporate Governance – Annual Update	HFR		Y			
Annual Governance Statement 2012/13	HPC		Y			
Treasury Management Annual Report 2012/13	HFR		Y			
Maidstone Museum East Wing Project Review	CEX		Y			
Review of Financial Thresholds in the Contract Procedure Rules	HFR			Y		
Review of corporate Policies						
- Whistleblowing						
- Anti Fraud and Corruption	HAP			Y		
- Money Laundering						
- Risk Management						
Treasury Management Strategy Mid-Year Performance 2013/14	HFR				Y	
Treasury Management Strategy 2014/15	HFR				Y	
Review of Risk Assessment of Budget Strategy 2013/14 Onwards	HFR				Y	
<b><u>ACCOUNTS</u></b>						
Statement of Accounts 2012/13	HFR		Y			
External Auditor's Annual Governance Report and Statement of Accounts 2012/13	HFR			Y		

**MEMBER TRAINING/DEVELOPMENT**

Audit Committee Member Skills

HAP

Y

**Key**

**AM** Audit Manager  
**CEX** Chief Executive  
**EA** External Auditor

**HAP** Head of Audit Partnership  
**HFR** Head of Finance and Resources  
**HPC** Head of Policy and Communications

**9. Audit Committee Membership 2013/14**

**Cllr Rodd Nelson-Gracie**  
Chairman



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**Cllr Derek Butler**  
Vice-Chairman



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**Cllr Alistair Black**



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**Cllr Dan Daley**



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**Cllr Mervyn Warner**



## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**MONDAY 15 JULY 2013**

### **REPORT OF HEAD OF INTERNAL AUDIT PARTNERSHIP**

**Report prepared by Brian Parsons**

#### **1. INTERNAL AUDIT ANNUAL REPORT 2012/13**

##### **1.1 Issue for Decision**

1.1.1 The report is provided in order to allow the Audit Committee to consider the work of the Internal Audit Team over the financial year 2012/13 and the opinion of the Head of Audit Partnership in relation to the Council's control environment, in the context of the Annual Governance Statement.

1.1.2 The Audit Committee must consider whether the outcomes of the Internal Audit work and the other matters referred to in this report provide evidence of a substantial level of internal control within the Authority, which can inform the Annual Governance Statement for 2012/13.

1.1.3 The Audit Committee must decide whether the matters referred to in the report provide evidence of an effective internal audit.

##### **1.2 Recommendations of Head of Audit Partnership**

1.2.1 That the Audit Committee note the Head of Audit Partnership's opinion that substantial reliance can be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

1.2.2 That the Committee note the results of the work of the Internal Audit Team over the period April 2012 to March 2013, as shown in the report and the appendices and that this is the prime source for the Head of Internal Audit's opinion.

1.2.3 That the Committee agree that the summary of the work and the other matters referred to in this report supports 'the opinion' and that the report can be used to inform the Annual Governance Statement for 2012/13.

- 1.2.4 That the Committee note the improvements in control that occur as a result of the audit process.
- 1.2.5 That the Committee consider the effectiveness of the Internal Audit service as part of the consideration of this report, and express an opinion accordingly.
- 1.3 Reasons for Recommendation

## **Background**

- 1.3.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.
- 1.3.2 The principal objective of the Internal Audit Service is to examine and evaluate the adequacy of internal control within the various systems, procedures and processes that are operated by the Council. The results of the work allow an opinion to be formed on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 1.3.3 The report allows Members to consider the outcomes of the work of the Internal Audit Team over the financial year 2012/13 and the opinion of the Head of Internal Audit in relation to the Council's framework of governance, risk management and control and whether the report can be used to inform the Annual Governance Statement for 2012/13.
- 1.3.4 The report provides an opportunity for the Audit Committee to assess the effectiveness of the Council's internal audit arrangements.

## **The Public Sector Internal Audit Standards**

- 1.3.5 A report on the new Public Sector Internal Audit Standards was provided to the Audit Committee meeting on 25 March 2013. The Standards became effective from 1 April 2013. This report has therefore been written to reflect the requirements which necessitate that:

- The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.
- The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- The annual report must incorporate:
  - the opinion;
  - a summary of the work that supports the opinion; and
  - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
- Progress against any improvement plans, agreed following external assessment, must be reported in the annual report.

## **The Annual Internal Audit Report**

### **Independence**

- 1.3.6 Internal Audit is provided through Mid Kent Audit, which is a shared service partnership between Ashford, Maidstone, Swale and Tunbridge Wells.
- 1.3.7 Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.
- 1.3.8 At Maidstone Borough Council, the Head of Audit Partnership (HAP) has direct and unrestricted access to senior management and the Audit Committee. Reports to Heads of Service are issued in the name of the HAP who is responsible for the final content of the report.
- 1.3.9 Any potential threats to independence are managed at the individual auditors, engagement, functional and organisational levels.
- 1.3.10 Organisationally the Head of Audit Partnership now reports to the Director of Environmental and Shared Services who is a member of the Corporate Leadership Team (CLT). Previously the Head of Audit Partnership reported to the Chief Executive. On no occasion has the Director, the Chief Executive or CLT sought to restrict the scope of audit work or to change any report prepared by the HAP.
- 1.3.11 It is considered that Internal Audit is organisationally independent and fully meets the necessary standard for independence and objectivity.

### **The annual internal audit opinion**

- 1.3.12 It is the opinion of the Head of Audit Partnership that substantial reliance can be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion covers the period from 1 April 2012 to date.
- 1.3.13 The opinion takes account of all related projects including the reliance on other assurance providers; principally the external auditors Grant Thornton (and previously the assurance provided by the Audit Commission).
- 1.3.14 The opinion takes account of the risk, control and governance framework.
- 1.3.15 The evidence to support the opinion is contained within this report. The opinion and this report can be used by the Council to inform its governance statement.
- 1.3.16 The Annual Governance Statement appears elsewhere on the agenda for this evenings meeting.
- 1.3.17 The Accounts and Audit Regulations 2011 also require that the Council 'must, at least once a year, conduct a review of the effectiveness of its internal audit'. It is considered that this report provides evidence of the effectiveness of internal audit and the Committee is therefore asked to treat consideration of this report as 'the review'.

### **Summary of the work that supports the opinion**

- 1.3.18 The opinion on the control environment is principally formed through the results of Internal Audit work during the financial year.
- 1.3.19 The equivalent of thirty-two significant audit projects were completed between April 2012 and March 2013, as listed at Appendix A.
- 1.3.20 The original audit plan showed thirty-six projects but was reduced to thirty-four to acknowledge that a post within the audit team was vacant for two months.
- 1.3.21 Thirty-two completed projects represent the delivery of 94% of the adjusted audit plan.
- 1.3.22 Appendix B shows an audit where at the time of the audit 'limited' control assurance was in place.



1.3.23 Appendix C shows the audit projects where at the time of the audit, 'substantial' or 'high' levels of control assurance was in place.

1.3.24 The *equivalent* of eleven of the audit projects did not include a control assurance assessment as it was not appropriate to the project at the time of the audit. These projects were:

- A review of the fundraising arrangements for the Maidstone Museum East Wing development (treated as the equivalent of two projects)
- A consultancy review aimed at improving the financial reporting arrangement for Park and Ride
- The co-ordination of the National Fraud Initiative on behalf of the Council
- A 'governance review' of the Council's Scrutiny arrangements, working with the Head of Change and Scrutiny
- Fraud review – an analysis of the performance of the fraud teams across the four partner authorities to assist the consideration of the potential creation of a shared service partnership fraud team
- Risk Management Policy Review
- Teammate administration – an ongoing project for the administration of the Teammate audit management system
- Teammate development – improving the functionality of the system
- Investigation – following an apparent breach of the rules relating to the Government Connect Secure eXtranet
- Investigations at Tunbridge Wells (this was 'repaid' by an audit by a TWBC auditor at Maidstone)

1.3.25 Summaries of these projects and 'other audit work' are shown at Appendix D.

1.3.26 The work of the Internal Audit Team has established that for the majority (95%) of the areas examined (where an assurance opinion was given), satisfactory controls were in place at the time of the original audit.

1.3.27 Where weaknesses have been identified, the appropriate Head of Service has since agreed the action to be taken to rectify those weaknesses.

1.3.28 The external auditors have been able to place reliance on the work of Internal Audit.

### **The results of external audit work during 2012/13**

1.3.29 The main part of the external auditor's work relates to the Council's financial accounts. The auditors will be considering the accounts for 2012/13 shortly. The External Auditor has not raised any issues with

Internal Audit that would give concern in relation to the Council's internal controls.

1.3.30 The external auditor's Annual Governance report for 2011/12 (which was reported to the meeting of the Audit Committee on 17 September 2012), included the statement 'I have not identified any significant weaknesses in internal control'.

### **The Council's risk management arrangements**

1.3.31 A revised Strategic Risk Register was adopted by Cabinet at its meeting on 13 February 2013.

1.3.32 The current register shows six risks, being:

- Having the right resources which are used in the right way
- Resident satisfaction with place and the way that services are provided
- Economic downturn/austerity agenda
- Creating the place we want to be
- Delivering services in partnership with others
- Impacts arising from political change

1.3.33 The risk management process requires that the allocated 'risk owners' must complete management action plans, which are subject to review and amendment every six months.

1.3.34 The process of obtaining management action plans commenced in March 2013. However, there was a limited response from the respective 'risk owners' at that time in terms of creating action plans. It is therefore proposed that the process will be recommenced in July, with a view to reporting the action plans to Cabinet in August and to the Audit Committee in September.

1.3.35 Internal Audit takes the role of facilitators of the risk management process but do not have responsibility for the individual risks or for the corporate risk register.

### **The effectiveness of internal audit process**

1.3.36 Heads of Service are required to respond to every audit report where recommendations are made, by completing an action plan which sets out the action that will be taken to address the audit recommendations. The response is assessed for adequacy; to ensure that the proposed actions are sufficient and that any weakness will be addressed within a reasonable period.

- 1.3.37 Only one report was issued during 2012/13 relating to an area where a 'limited' control assurance was assessed as being in place. The responsible Head of Service subsequently completed an action plan setting out comprehensive and timely actions to address the audit recommendations.
- 1.3.38 Internal Audit carries out a follow-up to each audit to ensure that actions have been taken in practice.
- 1.3.39 Twenty-four follow-ups took place during 2012/13. These are shown at Appendix E, which also shows the 'direction of travel', i.e. the improvements in control that occur as a result of the internal audit process.
- 1.3.40 Based on the generally prompt and positive responses received from senior management and the results of follow-up work, it is considered that senior management is effective in resolving control weaknesses.
- 1.3.41 It is considered that the internal audit process is effective.

### **Informing the Annual Governance Statement (AGS)**

- 1.3.42 The opinion of the Head of Internal Audit on the internal control environment is particularly relevant to the preparation of the Annual Governance Statement. In that context, it is not considered that there are any significant internal controls issues which are still outstanding and need to be referred to as outstanding control weaknesses in the AGS.

### **Performance of the internal audit function against its performance measures and targets**

- 1.3.43 During 2012/13 the internal audit function had two principal internal performance targets. The targets were:  
Completion of the annual internal audit plan (90% target)  
Achievement of customer care targets (85% positive response target)
- 1.3.44 The revised target for completion of audit projects within the internal audit plan for 2012/13 was 34 projects. In practice the number of projects completed during 2012/13 was 32, which is a 94% achievement of the plan and a performance in excess of the set target.
- 1.3.45 Customer surveys are issued to clients (service managers) following each internal audit to assess satisfaction with the audit service. The responses have been very positive. Positive levels of satisfaction help to confirm that customers/clients value the service that they receive

and the positive responses therefore provides evidence of 'value for money'

- 1.3.46 An annual survey of Chief Executives/Directors and Heads of Service is carried out across the four-way Internal Audit Partnership in order to obtain responses on the quality of the internal audit service. The most recent survey was carried out in June 2013.
- 1.3.47 The survey of the partner Chief Executives/Directors focuses on satisfaction with the overall service. Of the eleven responses received (which is all of those senior officers in this category), the answers to the question 'Are you satisfied with the service that you receive from Internal Audit', five were 'satisfied' and six were 'very satisfied'.
- 1.3.48 The survey of Heads of Service produced twenty-one responses over the four-way partnership, of which eight were 'satisfied' with the service and eleven were 'very satisfied' (two responders did not answer the question).
- 1.3.49 The survey of Heads of Service is quite detailed and includes questions on the quality of the various elements of the audit process. The main purpose of the survey is to identify aspects of the service that can be improved. The detailed responses will therefore be very carefully reviewed over the coming months and action will be taken to introduce improvements where appropriate.

**Statement on conformance with the Public Sector Internal Audit Standards (PSIAS) and the results of the quality assurance and improvement programme**

- 1.3.50 As stated earlier, the PSIAS has only been in place since 1 April 2013.
- 1.3.51 The PSIAS sets out the standards that the Internal Audit team has to comply with in order to meet the statutory requirement. A copy of the PSIAS has been provided to each auditor and each auditor has confirmed that they have 'read, understood and will work to the Public Sector Internal Audit Standards'.
- 1.3.52 The PSIAS requires that a Quality Assurance and Improvement Programme is in place. This requires both internal and external assessments. The internal assessments include ongoing monitoring of the performance of the internal audit activity, which is already in place, and 'periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices. CIPFA has recently published a 'Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards', which includes a checklist. It is intended to use the

checklist to aid periodic self-assessments of conformance with the Standards.

1.3.53 The PSIAS also require that an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. It is intended to seek an external assessment later in the year. The proposals for doing so will be reported to a future meeting of the Audit Committee.

1.3.54 The implementation of the PSIAS on 1 April 2013 means that aspects of the current service arrangement need to be changed in order to ensure full compliance. It is intended that the necessary actions will be taken during the current financial year so that the service will fully comply by 31 March 2014 at the latest. In particular, Internal Audit is required to operate to an approved Charter. It is intended that a draft Charter will be prepared and brought to the meeting of the Committee in September for approval.

### **Assurance levels**

1.3.55 Internal Audit use 'assurance levels' or assurance statements to provide the overall audit opinion for the service or area that has been reviewed. The use of an assurance level is 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. There are four assurance levels, as set out at Appendix F. The consistent use of assurance levels allows a balanced view to be taken of the overall adequacy of control within the Council.

1.3.56 In the financial year 2012/13, a total of twenty-one audit reports included an assurance assessment for the area that had been audited (the equivalent of eleven did not). The initial assurance assessments were categorised as follows:

	2012/13	Previous year
High	3	1
Substantial	17	21
Limited	1	7
Minimal	0	0
Not given	11	6
Total	32	35

1.3.57 The collective assurance level, which can be extracted from the audit work performed during 2012/13, provides considerable evidence to support the statutory Annual Governance Statement, with 96% of the

reports having a positive assurance assessment, identifying control assurance as 'substantial' or 'high' at the time of the audit.

### **Reporting of Internal Audit work to the Audit Committee**

1.3.58 Internal Audit work is reported at six-monthly intervals. An interim report, showing the first six months work of the financial year 2012/13, was provided to the Audit Committee meeting on 26 November 2012. A number of the audit projects shown in the appendices have therefore already been brought to the attention of the Committee.

### **Other issues - Staffing**

1.3.59 The team of operational auditors comprises three staff plus a management resource. Each auditor is expected to complete twelve audit projects during the year.

1.3.60 The management resource (which is shared across the audit partnership) is used for audit planning, review of audit reports, supervision of audit staff, strategic management, risk management, various aspects of governance and for reporting to the Audit Committee and the Corporate Leadership Team.

### **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 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 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 – The work of Internal Audit includes reviews of the main financial systems.

1.7.3 Staffing – The work of Internal Audit impacts on staffing issues and leads to changes in working practices.

1.7.4 Legal – There is a statutory requirement for the Council to undertake an adequate and effective internal audit of its accounting records and its system of internal control in accordance the proper practices in relation to internal controls (Accounts and Audit Regulations 2011).

1.8 Relevant Documents

1.8.1 Appendices

Appendix A – Audit projects completed between April 2012 and March 2013

Appendix B – Audit projects completed between April 2012 and March 2013 where controls were unsatisfactory

Appendix C – Audit projects completed between April 2012 and March 2013 where controls were satisfactory

Appendix D – Audit projects where the control assurance was not assessed – and ‘other audit work’

Appendix E – Audit follow-ups during 2012/13

Appendix F – Assurance levels definition

1.8.2 Background Documents

1.8.3 None

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



## Summary Report of Audit Assignments April 2012– March 2013 Assurance Assessments

Ref.	Report / Project	Date of Report	Report Assurance Level	Summary Report Extract	Follow-up assurance assessment
1 and 2	Maidstone Museum East Wing Development – Fundraising  <i>Note: This was a significant piece of work and equated to the time spent on two normal audit projects.</i>	May 2012	An assurance assessment was not included within this report.	Appendix D	Follow up assessment not required as no recommendations were made in the report. The internal audit assessment has been considered within a wider review of the Museum East Wing delivery and project management, coordinated by the Chief Executive
3	Members Allowances	May 2012	Substantial	Appendix C	Substantial
4	Park and Ride Income	May 2012	Not given	Appendix C	Substantial
5	Compliance with Officer Code of Conduct	June 2012	Substantial	Appendix C	Substantial
6	Grounds Maintenance	July 2012	High	Appendix C	Not required - no recommendations arose from the audit
7	Parking Enforcement Partnership MBC & SBC	July 2012	Substantial	Appendix C	Substantial
8	The Gateway	August 2012	Substantial	Appendix C	Substantial
9	Compliance with the Planning Code of Conduct	September 2012	Substantial	Appendix C	To be completed July 2013
10	Performance Management Framework	September 2012	Substantial	Appendix C	Substantial
11	Corporate Complaints	September 2012	Substantial	Appendix C	Substantial
12	NFI 2012/13	September 2012	Not applicable – Coordination role		Investigation progress reports produced June and September
13	Waste Collection - Contract payments & variation orders	November 2012	High	Appendix C	Not required - no recommendations arose from the audit

14	Governance / Scrutiny Review	November 2012	N/A (consultancy role)	Appendix D	N/A
15	Homelessness	December 2012	Substantial	Appendix C	Substantial
16	Visitor Economy Business Unit	January 2013	Limited	Appendix B	Substantial
17	Fraud Service - Business Plan	January 2013	N/A – Policy review	Appendix D	N/A
18	Parish Services Scheme	January 2013	Substantial	Appendix C	Substantial
19	Development Control Enforcement	February 2013	Substantial	Appendix C	To be completed July 2013
20	Litter Enforcement	February 2013	Substantial	Appendix C	To be completed July 2013
21	Accounts Payable	March 2013	High	Appendix C	Not required as no recommendations arose from the audit
22	Corporate Credit Cards	March 2013	Substantial	Appendix C	To be completed September 2013
23	IT Disaster Recovery	March 2013	Substantial	Appendix C	To be completed January 2014
24	IT Network Controls	March 2013	Substantial	Appendix C	To be completed December 2013
25	General Ledger (Budgetary Control)	March 2013	Substantial	Appendix C	To be completed November 2013
26	Tovil Parish Council	March 2013	Substantial	Appendix C	N/A
27 TWBC	Council Tax	December 2012	Substantial	Appendix C	To be completed July 2013
<b>Additional Audit Project Work</b>					
28	Risk Management Policy Review		Audit Consultancy		
29	Teammate administration and development		Audit Development		
30	Teammate Project – Reporting functionality		Audit Development		
31	Investigation – Benefits System Security		Investigation		
32a	Investigation – Tunbridge Wells Planning Service		Investigation	Resource provided by MBC staff repaid within the terms of the partnership agreement through provision of partner audit review of MBC information Governance (not complete at year end)	
32b	Investigation – Tunbridge Wells Officer Grievance		Investigation		
	Audit Commission Fraud Survey		Coordination role		

	<b>Strategic Risk Management</b>	<b>Audit Consultancy</b>	
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**Summary of Internal Audit Evaluation of Control Environment – Assessed as Limited and Minimal**

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**Audit Title:** Visitor Economy Business Unit

**Service:** Economic Development

**Report Date:** December 2012

**Audit Objectives:**

To establish and evaluate the Unit responsibilities for the delivery of the VEBU support service, with regard to achieving the Museum Business Plan objectives, and to establish the controls over financial arrangements.

**Key Findings:**

- The Maidstone Museum business plan sets out the key objectives and priorities of the service and includes actions to be taken by the VEBU Leader to achieve these objectives. The audit established that some key actions due to be completed for 2012/13 had not been commenced.
- A review of staff costs were required to establish whether expected efficiency and financial savings, have been achieved and are to be sustained or improved in the future.
- Improvements were required over the monitoring of staff costs, in particular overtime claims prior to submission to the payroll section for payment.
- A number of income streams were examined during the audit. Testing identified that good procedures were in place for the receipt of income received by VEBU. However, room hire costs and charges were in need of review to ensure that charges remain adequate to meet pre-agreed income targets and performance monitoring arrangements for the Museum Café were required
- Procedures of control were in urgent need of improvement where income is received directly by the Museum staff and passed to the Senior CSA for banking.
- Stock control systems for Museum Shop stocks were in need of improvement

**Level of Assurance Issued:** Limited

**Management Response Summary:** The Management response was considered to be satisfactory. All recommendations within the report were agreed, and actions outlined to address any weaknesses. Realistic target dates were set, with actions to be fully implemented by April 2013.

**Follow-up Assessment:** Substantial.

The majority of the agreed actions had been satisfactorily implemented. Continuing actions related to the introduction of performance indicators to monitor the museum café performance and the agreement of open book accounting arrangements with the café contactor

**Summary of Internal Reports - April 2012 to March 2013 – Assessed as Substantial and High**

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**Audit Title:** Members Allowances

**Service:** Democratic Services

**Report Date:** May 2012

**Audit Objectives:**

- To determine whether procedures for the claiming, processing and payment of allowances comply with the Council's Constitution and Financial Procedure Rules
- To establish if Member allowance payments made in 2011/12 were accurate and authorised
- To establish if expenses claims paid in 2011/12 were authorised and accurate and supported by adequate documentation
- To determine whether the arrangements for the reporting of allowances and expenses meet 'open government' and 'transparency' objectives

**Key Findings:** The audit confirmed that controls over Members Allowances are strong. Minor improvements were recommended to ensure that the broadband expenses policy is the subject of regular review and to ensure that claims for broadband expenses are submitted in a timely manner.

**Level of Assurance:** Substantial

**Management Response Summary:** The Head of Democratic Services agreed to the two recommendations arising from the audit. Action plans were agreed with actions to be implemented by October 2012. The management response was, therefore, considered to be adequate.

**Follow up assessment:** Substantial

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**Report Title:** Park & Ride Income

**Service:** Transport & Parking Services

**Report Date:** May 2012

**Audit Objectives:**

- To establish and evaluate the key monitoring controls over the contract including inspection and monitoring of the service by ARRIVA Southern Counties Ltd
- To evaluate and review the controls over the monitoring of key financial records provided by ARRIVA – including reconciliation with invoices raised for monthly contract sums

- To review the accuracy and completeness of performance data provided by ARRIVA

**Key Findings:**

The audit concluded that the financial data provided by ARRIVA was accurate and that passenger data reconciled with revenue data. Reductions in revenue were confirmed be due to a decrease in use of the service (passenger numbers/ticket sales), with a significant reduction in season ticket income and reductions in concessionary fare reimbursement.

A review of the key controls identified that there had previously been a lack of formal monitoring and management of the contract by the Council's officers. Therefore, although assurance was provided in relation to the integrity of financial data provided by ARRIVA, attention was required to improve the key controls over the monitoring of the service by the Council.

The review of administration and contract monitoring procedures identified a number of recommendations for improvement:

- Review of procedures for the issue of season tickets to KCC – to enable tickets to be fully accounted for and reconciled.
- Independent quality assessments on the Maidstone Park and Ride service by ARRIVA to enable assurance to be gained that the service standards were reliably being maintained, and delivered in compliance with the contract. Particular concerns were raised over the lack of inspection of tickets, and the absence of mystery shopping and driver assessment;
- There had been no formal programme of contract monitoring meetings between the Council and ARRIVA. As a result, the reporting of performance and financial data had been inconsistent;

**Level of Assurance:** The review was conducted at management request and no level of assurance was issued at the time of reporting. However, if a formal assessment had been made it is likely to have concluded that only limited control assurance was in place. An assurance assessment was agreed to be made upon completion of the audit follow-up.

**Management Response Summary:**

All recommendations were accepted, and actions proposed for implementation by October 2012.

Key actions included scheduling a formal programme of contract monitoring meetings with ARRIVA to review key aspects such as customer satisfaction, performance management, and finance and passenger data. In addition, controls were implemented over the issue of season tickets, and season ticket stock.

The management response was considered to be adequate.

**Follow-up assessment:** Substantial

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**Audit title:** Compliance – Officer Code of Conduct

**Service:** Human Resources/Legal Services

**Report Date:** June 2012

**Audit Objectives:**

- To establish and evaluate the Council’s policies/processes relating to the Officer Code of Conduct and the Bribery Act
- To establish and evaluate compliance with the Code of Conduct (including the requirements of the Bribery Act and ‘the policy’)
- To establish and evaluate controls in place to ensure that staff are aware of their Code of Conduct responsibilities and to ensure that declarations are made where necessary

**Key Findings:**

The Officer Code of Conduct forms part of the Council’s Constitution. The code is reviewed on a periodic basis by the Head of Human Resources and any changes are approved by the Employment and Development Board.

Audit testing was undertaken which confirmed compliance with the Officer Code of Conduct. However it was considered that there was a need to communicate the requirements of the code to staff on a periodic basis to maintain awareness and to promote ongoing compliance with the standards

The Bribery Act 2010 came into force on 1 July 2011. It is directed principally at Commercial organisations, which are required to demonstrate that ‘adequate procedures’ are in place to prevent bribery. While not directly aimed at local authorities, the Council is not exempt from the law and the Council is required to consider the impact on its ‘business activities’. The audit established that the Council does not have a dedicated Anti-bribery policy in place to direct its requirements in relation to the Act.

**Level of Assurance:** Substantial

**Management Response Summary:**

The management response was considered to be satisfactory. All recommendations were accepted, with the majority of actions proposed for implementation within 6 months.

Key actions included discussions with the Corporate Leadership Team to consider whether the Council had adequate procedures in place to prevent fraud, corruption and bribery and whether this needed to be reinforced with an Anti-Bribery Policy. The discussions resulted in the decision that a separate policy was not required but that risk assessments should be carried out for those services which may be affected and guidance provided accordingly.

The Head of Human Resources agreed to incorporate a reminder to staff to familiarise themselves with the requirements of Corporate Policies as part of the annual reminder that is issued to staff relating to gifts and hospitality.

**Follow up assessment:** Substantial

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**Audit title:** Grounds Maintenance  
**Service:** Maidstone Borough Services  
**Report Date:** July 2012

**Audit Objectives:**

- To establish how the specification / schedule of works is compiled, how the work is resourced and how unplanned / re-active work is managed
- To identify whether grounds maintenance work is the subject of adequate monitoring and performance management
- To consider whether there is adequate budgetary control over income and expenditure
- To establish if grounds maintenance equipment is fully accounted for and properly maintained

**Key Findings:**

The audit confirmed that there are good supervisory controls in place over the Grounds Maintenance teams which provide clear reporting lines and which include daily briefing sessions for all team members to ensure that work schedules are adequately understood and resourced. The general maintenance plan within each of the Park Management Plans clearly sets out the programme of works for the parks and open spaces within the Borough. There are separate schedules of work for grass cutting and playground inspections.

The procedures in place to monitor the work of the grounds maintenance team provide good controls. The Quality Management System complies with ISO 9001:2008 standards and the Green Flag status awarded to two of the Council's parks confirms that the Council's parks and open spaces are maintained to a high level quality standard.

Testing undertaken confirmed that the procedures over income and expenditure provide good controls. Furthermore, from discussions with the responsible Accountant and review of documentation, it was considered that there are good budgetary controls in place, with monthly budgetary reports and quarterly meetings taking place between the Accountant and the Environment Manager.

**Level of Assurance:** High

**Management Response Summary:**

No recommendations were made in the report therefore a management response was not required.

**Proposed Date for Follow-up:** Not required

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**Audit title:** Parking Enforcement – Maidstone & Swale

**Service:** Parking Services

**Report Date:** July 2012

**Audit Objectives:**

- To consider progress towards the implementation of coordinated procedures and processes since the formation of the Parking Service partnership;
- To consider the adequacy of the contract delivery and monitoring controls over the parking enforcement contract with APCOA – including performance management;
- To consider the adequacy of controls over the receipt and collection of income through the processing and issue of PCNs – including accounting arrangements; and
- To review the controls over recovery action and non-payment of PCNs;

**Key Findings:**

The Audit established that enforcement operations were generally operating effectively. Key recommendations related to a weakness in financial controls within the reconciliation of PCN income at Swale. Recommendations were made to establish procedures to enable the balancing of PCN income from the parking system (Imperial) to the general ledger system, Agresso.

Additional recommendations related to:

- Update of the implementation plan to ensure the continued progression of shared partnership procedures, including the need to identify and mitigate shared service risks;
- Consideration of the broader efficiencies that can be delivered through continued development of the Imperial parking enforcement system – including the benefits of implementing the Imperial online payments interface at Maidstone;
- Establishment of a management check over cancelled tickets, to ensure that the quality and consistency of decisions are maintained and verified.

**Level of Assurance:** Substantial

**Management Response Summary:**

All recommendations within the report were agreed, and actions were set out to address any weaknesses. Realistic target dates were set, with actions to be fully implemented by January 2013.

The management response was considered to be satisfactory.

**Follow up assessment:** Substantial

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**Audit title:** Gateway  
**Service:** Customer Services  
**Report Date:** September 2012

**Audit Objectives:**

- To examine the arrangements in place for monitoring and maintaining the adequacy of services delivered through the Gateway.
- To identify and evaluate the occupancy and operational arrangements in place in respect of organisations operating from the Gateway
- To evaluate and test the security and financial procedures operated within the Gateway – including staff and customer safety and automated payments through the KPR machines.

**Key Findings:**

The report concluded that controls over the arrangements were generally strong. Several areas were identified where improvements could be made; for example there was a need to ensure that a signed Partner Operating Agreement is in place for all external organisations occupying the Gateway.

The audit evaluated and tested the financial procedures in place over the KPR (cash receipting) machines, this confirmed that the arrangements were operated in accordance with agreed procedures and provided good financial control. However, the cash float retained to top up the KPR machines was not being counted, reconciled and evidenced on a regular basis.

The report also recommended that consideration should be given to the need to assess the benefit derived from the Gateway remaining open until 7pm on Thursdays. This was based on the relatively low number of customers who visited the Gateway between 5.30pm and 7pm.

**Level of Assurance:** Substantial

**Management Response Summary:** The management response was considered to be adequate. All recommendations were accepted and realistic timeframes for completion were set.

**Follow up assessment:** Substantial, with all actions being either complete or satisfactorily progressed

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**Audit title:** Compliance with Planning Code of Conduct

**Service:** Planning

**Report Date:** September 2012

**Audit Objectives:**

- To establish/test awareness of and compliance with the Local Code of Conduct for Councillors and Officers dealing with Planning Matters

**Key Findings:**

From the 12 aspects tested within the Code, 2 areas were identified where full compliance could not be demonstrated. Due to compliance being achieved over the majority of the code, and limited exposure to risk, overall compliance provided a substantial level of assurance.

The 2 areas where full compliance could not be demonstrated related to:

- Review of planning decisions – There was a need to more formally evidence and feedback from the annual planning review, particularly for the Committee to consider the effectiveness and impact of the review on future planning policy and practices;
- Planning Committee Training – Attendance records needed to be improved to correctly record that all Planning Committee Members have attended the appropriate training, including planning updates which are often not recorded or evaluated.

Further key recommendation raised in the report related to timely completion and submission of Member declarations of interest, APAS system developments to improve pre-applications reporting and the opportunity to clarify responsibilities relating to officers conducting private work outside of their normal duties. The review of the Planning Code during the audit allowed discussions to be initiated regarding the Council adopting a clearer protocol over private work practices.

**Level of assurance:** Substantial

**Management Response Summary:** The management response was considered to be satisfactory. All of the recommendations were agreed for implementation in a timely manner.

**Proposed Date for Follow-up:** To be completed in July 2013

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**Audit title:** Performance Management Framework

**Service:** Change and Scrutiny

**Report Date:** September 2012

**Audit Objectives:**

To establish whether:

- Adequate performance management framework policies and guidance are in place and whether these are understood and applied;
- The performance indicators in place are clearly defined, useful and support the achievement of the Councils' objectives;
- Appropriate processes are in place to verify the accuracy of the data being measured and reported;
- Performance information is being appropriately reported and where necessary action is being taken to address poor performance.

**Key Findings:**

Review of Council's performance management framework identified that there is an established performance management process in place which includes procedures and indicators to support the achievement of the Council's objectives.

Key recommendations arising from the audit to improve the effectiveness of the performance management process related to:

- Clarification for officers of the Council's performance management process and, to support this, the indicators relating to service level performance (i.e. RTS and SPIs) should be re-visited and potentially re-launched.
- Some additional performance indicators were identified to further support the achievement of the Council's 'outrageous ambitions' and Performance indicators were to be reviewed along-side service plans to ensure that appropriate indicators are in place to support the achievement of any improvement plans.
- Directorate and Corporate Leadership Team (CLT) challenge of poor performance should be more clearly recorded along with the actions that are to be taken to address poor performance.
- It was not possible to verify the accuracy of 2 of the indicators sampled because the original reports from the system were not kept. It was therefore recommended that regular checking of the data quality of a sample of indicators is undertaken.

**Level of Assurance:** Substantial

**Management Response Summary:** The management response was considered to be satisfactory with all of the recommendations agreed for implementation in a timely manner.

**Follow-up Assessment:** Substantial.

The majority of actions had been completed. Two key areas of work were continuing to be undertaken and will continue throughout the year - performance indicators were being audited by the Performance & Scrutiny Officer to check that the indicators are appropriately calculated with sufficient documentation being maintained and that the manager responsible is compliant with the Data Quality Policy; and work is being undertaken to ensure that documentation detailing the rationale for monitoring the indicator and how it is monitored is completed and uploaded onto Covalent.

**Audit title:** Corporate Complaints

**Service:** Change and Scrutiny

**Report Date:** September 2012

**Audit Objectives:**

- To review and evaluate the policy, strategy and structure in place for the management of complaints – including any statutory provisions.
- To review the Request for Information (RFI) System to ensure that complaints are properly recorded, promptly actioned and resolved in line with authority guidance and standards
- To establish monitoring procedures to confirm whether they provide for the delivery of accurate, timely and relevant management information

**Key Findings:**

The audit concluded that there was a need to improve the overall arrangements for the management of the complaints process. A range of officers were involved with the complaints process, with different roles and responsibilities. While this is largely inevitable bearing in mind the range of complaints, the breadth created a potentially fragmented approach which needed to be managed and brought together at a senior level. This management responsibility rested with the Head of Change and Scrutiny; however more needed to be done to clarify and develop this role in order to allow the Head of Change and Scrutiny to take on a more controlling presence within the overall complaints process.

The Councils corporate complaints system was replaced in August 2012 by a new correspondence system 'Request for Information' (RFI). The application is designed as a framework to include Complaints, Freedom of Information and Environmental Information Requests and any other form of correspondence received by the Council. The RFI system went "live" at the time of the audit. As with any new system there had been a number of operational issues raised by the users of the system which were being resolved. The report recommended that the process in relation to complaints should be led, driven and further developed by the Head of Change and Scrutiny rather than through the Executive Support team.

**Level of Assurance:** Substantial

**Management Response Summary:**

The management response was considered to be satisfactory. All recommendations within the report were agreed, and actions outlined to address any weaknesses. Realistic target dates were set, with actions to be fully implemented by February 2013.

**Follow-up Assessment:** Substantial. The majority of the agreed actions had been completed and the Head of Change and Scrutiny had been allocated responsibility for all elements of the Complaints process. Incomplete actions related to the completion of a policy for unreasonable and persistent complaints and the provision of complaints system training.

**Audit Title:** Waste Collection Contract – Contract Payments

**Service:** Maidstone Borough Services

**Report Date:** October 2012

**Audit Objectives:**

- To verify that payments made to the contractor are in accordance with the contract and are correctly calculated.
- To establish and review the method for making variations to the contract.

**Key Findings:**

From the extensive testing and evaluation carried out during the audit, it was concluded that there are strong controls in place over the verification and payment of contract payments and that the procedures in place are being well operated. In particular:-

- Audit testing undertaken on core contract payments, confirmed the correctness of the contractor's invoices and the subsequent payments made through the Council's payments system Agresso.
- Annual indexation adjustments had been correctly applied to the contract sum in accordance with the contract specification.
- Variation Orders had been correctly raised for permanent changes to the core contract sum and subsequent indexation adjustments had been correctly applied.

**Level of Assurance:** High

**Management Response Summary:**

No recommendations were made in the report therefore a management response and follow up assessment were not required.

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**Audit Title:** Homelessness  
**Service:** Housing and Community Services  
**Report Date:** December 2012

**Audit Objectives:**

- To establish whether the Council is compliant with relevant Legislation and acting within the Homelessness Strategy; including in particular, young people (compliance with the joint protocol), and those who are pregnant or with families.
- To review the adequacy of the processes for preventing homelessness and whether these are compliant with relevant Legislation and the Homelessness Strategy.
- To test the assessment of eligibility for homeless persons and the housing assistance awarded.
- To assess the adequacy of the processes for reviewing cases and for other aspects of managing homelessness in the Borough
- To establish whether income and expenditure is properly accounted for.

**Key Findings:**

- Staffing issues needed to be addressed particularly to ensure that projected increases in the number of clients initially presenting as homeless to the Council are seen quickly and allocated a sufficient amount of time to discuss their case.
- Temporary Accommodation used by the Council should be regularly reviewed to ensure that it meets minimum health and safety requirements.
- Action should be taken to identify opportunities to reduce overspends against the Temporary Accommodation budget.
- The Northgate CRM system script for homeless enquiries should be updated to reflect the current processes within the homelessness team.
- The system of verifying the quarterly P1E returns to the DCLG should be refined so that it is less time consuming.

**Level of Assurance:** Substantial

**Management Response Summary:** The management response was considered to be satisfactory.

The audit recommendations were agreed with appropriate action outlined to address the issues identified. This included:

- appointing an additional resource of one FTE Housing Advisor,
- the implementation of regular inspection of temporary accommodation used by the Council and a submission as part of the council's commercialism project to identify alternative means of providing temporary accommodation, and

**Follow-up Assessment:** Substantial.

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**Audit Project:** Council Tax – Valuations, Liability and Billing

**Service:** MKIP Benefits & Revenues Partnership

**Report Date:** December 2012

**Audit Objectives:**

- To establish if all property valuations (new and amendments) are correctly updated on the Council Tax system
- To establish if the correct Council Tax Debit has been calculated and that it has been correctly applied to Council Tax accounts
- To evaluate the arrangements for the timely and accurate billing of Council Tax

The review encompassed the Tunbridge Wells and Maidstone sites (in the context that the arrangements are provided through a shared service).

**Key Findings:**

Although many common working practices and policies have been developed by the partnership, there are still some areas of inconsistency e.g. records management, data handling and retention, temporary deletions and inspection arrangements.

The national scheme for Council Tax Benefit ended on 31<sup>st</sup> March 2013 and resulted in Local Authorities developing their own schemes. These changes, combined with the implications of the New Homes Bonus (in terms of the record of new properties being based on Council Tax records), impact on inspection regimes (i.e. the need for increased frequency as the shorter durations for some discounts and exemptions may impact on tax base and calculations).

**Level of Assurance:** Substantial

**Management Response Summary:**

Management has undertaken reviews of activities, records and working practices affected by revised operational environment, and has commenced development of new and revised supporting policies and procedures.

The service plans to recruit an additional inspector to support the changes being introduced for empty properties, council tax support and business rates.

**Proposed Date for Follow-up:** July 2013

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**Audit Title:** Parish Services Scheme

**Service:** Communities

**Report Date:** January 2013

**Audit Objectives:** The review was planned to be carried out in two phases to establish whether the new scheme was deliverable and sustainable, and to confirm whether it represents a financial risk to the Council.

Phase 1

- Establish the adequacy of the initial discussions with Parishes around how funding will change, and the support provided to Parishes.
- Review the initial funding estimates to establish whether they comply with the scheme.

Phase 2

- Following Parish consultation on the initial funding estimates, review the appropriateness of any changes made.
- Review the agreements put in place to establish if they are suitable, including arrangements to confirm ongoing compliance with the scheme.

**Key Findings:**

Phase 1: One recommendation was made for management consideration following completion of Phase 1 of the review. This related to funding for the maintenance and repair of war memorials, which at the time of the audit, did not appear to be based on the costs currently incurred by the Council for maintaining and repairing the memorials in the Town.

**Level of Assurance:** Substantial

**Management Response Summary:** The management response provided satisfactory evidence to confirm the equitable basis of the Council's contribution to parishes for memorial maintenance and repair – the management response was, therefore, considered to be satisfactory

Phase 2:

Audit testing of a sample of Parish Councils' (PC) funding estimates identified a number of errors which resulted in the PC being either over funded or under-funded. These errors were corrected prior to the final payments being made but a recommendation was raised to ensure the remaining PC funding estimates were checked prior to funding being issued.

Further recommendations were raised during the audit to improve the monitoring of annual returns to confirm compliance with the scheme conditions and for conditions relating to unspent funding at year end to be clarified and reminded to PCs on a regular basis.

**Level of Assurance:** Substantial

**Management Response Summary:** The management response was considered to be satisfactory and provided satisfactory evidence to confirm the equitable basis of the Council's contribution to parishes for memorial maintenance and repair and funding of all PCs has been double checked to ensure the calculations are accurate and adjustments made where appropriate. In addition, each year the Finance Team will select 3 PCs at random (representing a 10% sample) and undertake checks to ensure the accuracy of

the information included on the annual return, the Funding Agreement has been amended and a copy of the agreement will be sent out each May with the first of the payments.

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**Audit Title:** Development Control Enforcement

**Service:** Planning

**Report Date:** February 2013

**Audit Objectives:**

- To establish whether complaints received are recorded promptly and properly and allocated to officers appropriately.
- To establish whether complaints are investigated in a timely manner and the contravener is notified of the action necessary to remedy the complaint. This is to include the issuing of informal requests and enforcement notices.
- To establish whether enforcement action is adequately recorded and reported
- To establish whether follow-ups to investigations are performed with further action taken where necessary, including prosecution.

**Key Findings:**

The audit confirmed that the Council has an effective Planning Enforcement Policy Statement which provides a decision-making framework and enables effective enforcement standards, procedures and practices to be implemented and monitored. Planning complaints are initially allocated to Enforcement Officers who, through their investigation and site visits, conclude whether a planning breach has occurred. This process works well, filtering out those cases where there is no planning breach.

The Planning Enforcement Policy statement requires complaints to be prioritised once a breach has been identified and enforcement action is required. All significant breaches of planning control should be prioritised using the matrix system approved by the Councils Planning Committee. The audit established that the matrix system to prioritise cases is not used by the Planning Officers (Enforcement).

At the date of the audit (February 2013) there was a total of 385 'open' planning enforcement cases. As enforcement action must be taken within a certain time of the breach of planning accruing, the report recommended that all 'open' cases are reviewed and prioritised on an ongoing basis to ensure the required enforcement action is progressed.

**Level of Assurance:** Substantial

**Management Response Summary:** The Management response was considered to be satisfactory

All recommendations within the report were agreed, and actions outlined to address any weaknesses. Realistic target dates were set, with the majority of actions to be fully implemented by June 2013.

**Proposed Date for Follow-up:** July 2013

**Follow-up Assessment:** To be completed July 2013

**Audit Title:** Litter Enforcement

**Service:** Environmental Services

**Report Date:** February 2013

**Audit Objectives:**

- To establish compliance with the Clean Neighbourhoods and Environment Act 2005 for the issue of fixed penalty fines;
- To establish and evaluate the contract monitoring and compliance controls over the contract with Xfor Local Authority Support Ltd for the supply of environmental enforcement services (litter enforcement);
- To establish and evaluate the financial and accounting controls over the receipt, payment and reconciliation of fixed penalty notices;

**Key Findings:**

The majority of the controls reviewed during the audit were considered to be operating effectively. Key recommendations arising from the report relate to:

- The need to more clearly define the responsibilities, authority and management of the litter enforcement service, particularly at the operational level;
- The restriction of write-offs and implementation of more robust authorisation procedures;
- The implementation of updated invoice and payment procedures to confirm accuracy prior to payment; and
- The implementation of reconciliation procedures to confirm the accuracy of payment data between AIM and M3

**Level of Assurance:** Substantial

**Management Response Summary:** The management response was considered to be satisfactory. All of the audit recommendations were accepted, and management action was planned to be completed by July 2013.

**Proposed Date for Follow-up:** July 2013

**Follow-up Assessment:** To be completed in July 2013

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**Audit Title:** Accounts Payable

**Service:** Corporate Finance

**Report Date:** March 2013

**Audit Objectives:**

- To consider the adequacy of the revised structure for the prevention and detection of fraud and error in payments to creditors, including changes to standing data (supplier details and bank accounts)
- To establish if payments made to creditors during 2012/13 are accurate and authorised.
- To review the process for issuing payments to Creditors

## **Key Findings:**

The audit concluded that there are good controls over the payment of creditors. In particular the audit established that:

- There is a clear separation of duties within the accounts payable process to prevent unauthorised payments, through the inputting of new suppliers to the submission of payment files.
- Agreed procedures for the setting up of new suppliers and changes to supplier standing data are adhered to in practice.
- All of the payments tested were authorised, accurate and processed in accordance with the agreed procedures.
- The process for issuing payments to creditors (BACS and cheques) is secure and restricted to authorised officers.

**Level of Assurance:** High

## **Management Response Summary:**

No recommendations were made in the report, therefore a management response was not required.

**Proposed Date for Follow-up:** Not required

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**Audit title:** General Ledger (Budgetary Control)

**Service:** Finance

**Report Date:** March 2013

## **Audit Objectives:**

To establish whether:

- Appropriate budget setting processes are in place
- Appropriate processes are in place to ensure service objectives and savings identified within the 2012/13 budget are achieved
- Budget monitoring takes place on an ongoing basis and, that variances to budgets are identified and appropriately reported

## **Key Findings:**

The audit confirmed that there are good budget setting and monitoring controls in place with, generally, adequate consideration given to influencing factors.

Key recommendations in the report related to:

- The need to change the virement process so that virements can be regularly reported to Cabinet, as required in the Constitution.
- Increased involvement of budget holders in the budget setting process and in the identification and setting of savings targets.
- Increased involvement of the Overview & Scrutiny Committee in the budget setting process in order to be able to offer challenge where appropriate.
- Improvements to budget monitoring reports sent to directors through the removal of internal recharges, and possibly by reporting income and expenditure separately.

**Level of Assurance:** Substantial

**Management Response Summary:** The management response was considered to be satisfactory and all actions were agreed to be implemented in a timely manner.

**Proposed Date for Follow-up:** November 2013

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**Audit Title:** ICT Disaster Recovery

**Service:** ICT

**Report Date:** March 2013

**Audit Objectives:**

- To establish whether the ICT disaster recovery plan is robust to enable the effective recovery of the Council maintained IT infrastructure, systems and data;
- To determine if the ICT disaster recovery plan is maintained up to date and subject to testing and review;

**Key Findings:**

During the audit a disaster recovery scenario test was performed. The test focussed on the recovery of applications and systems mirrored to the recovery centre located in the Gateway. The recovery process was fully operational within 2 hours, which represents a minimal level of service disruption. The testing scenario provided initial assurance that, if invoked, the recovery processes for mirrored applications can be effectively and promptly recovered.

Key recommendations in the report related to:

- Clearly defining the roles and responsibilities over the disaster recovery arrangements (strategic and operational), particularly considering the changes to resources as a result of the ICT partnership;
- The need to refresh and update the disaster recovery plan to ensure that it reflects the partnership arrangements as well as the local operational procedures and suppliers;
- The need to ensure that disaster recovery testing is delivered in line with the agreed programme, and that the scope of testing is updated to include the priority business applications

**Level of Assurance:** Substantial

**Management Response Summary:** The Management response was considered to be satisfactory. All of the recommendations have been accepted, and management action proposed. Realistic targets have been set for implementation with the majority of actions being completed by January 2014.

**Proposed Date for Follow-up:** January 2014 – to enable the follow up to be completed in conjunction with the next planned disaster scenario testing.

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**Audit Title:** IT Network Controls

**Service:** IT Services

**Report Date:** March 2013

**Audit Objectives:**

To establish whether:

- a network strategy exists and standards and policies are in place to support its delivery;
- appropriate agreements are in place to control partner access and access to the network is monitored and unauthorised access to data transmitted over the network is minimised;
- network performance is regularly monitored and procedures are in place to address any issues;
- appropriate records are maintained of the network, associated hardware and software and any work carried out;

**Key Findings:**

- A number of IT Policies were out of date and contained references to processes no longer used by the Council.
- Clear processes were not in place for identifying leavers and revoking their access, or for identifying changes in staff roles and changing their access if appropriate.
- Third Parties were not always providing written confirmation of their intention to abide by the Councils' computer use policies.
- Audit of IT assets were not being undertaken on a regular basis.

**Level of Assurance:** Substantial

**Management Response Summary:** The management response was considered to be satisfactory with timely actions being agreed to address recommendations arising from the report

**Proposed Date for Follow-up:** December 2013

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**Audit title:** Corporate Credit Cards

**Service:** Finance

**Report Date:** March 2013

**Audit Objectives:**

- To establish and evaluate the procedures of control over the application and issue of credit cards to Council employees
- To establish if credit card payments made during 2012-13 are accurate, authorised and correctly allocated within service accounts
- To establish whether recommendations arising from the last Creditors and Credit Card audit in February 2012 have been implemented.

**Key Findings:**

A follow-up to the previous audit of Creditors and Credit Cards undertaken in February 2012 established that some recommendations had not been implemented. These related to updating the credit card guidance within the Council's constitution, the finalisation of a formal policy/guidance to outline the 'rules' and controls over corporate credit card usage and the monitoring and reporting of credit card expenditure.

Additional recommendations arising from the audit relate to:

- Improved validation checks to ensure that card expenditure is correctly authorised and that purchases made are in accordance with Council policies.
- The implementation of the Agresso credit card module to improve procedures of control and enable credit card usage to be monitored and reported.
- The transfer of the Council's credit cards to Lloyds bank cards

**Level of Assurance Issued:** Substantial

**Management Response Summary:**

All recommendations within the report were agreed and actions outlined to address any weaknesses. Realistic target dates were set, with the majority of actions to be fully implemented by September 2013. Therefore the Management response was considered to be satisfactory

**Proposed Date for Follow-up:** September 2013

**Follow-up Assessment:** To be completed September 2013

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**Summary of 'Other' work completed by Internal Audit during the period April – 2012 – March 2013**

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**Maidstone Museum East Wing Development - Fundraising**

In September 2007 a grant of £1,999,000 was offered by the Heritage Lottery Fund towards the anticipated £4.2 million cost of the Maidstone Museum East Wing Development Project (47.6% of the expected total cost). The project cost was subsequently reduced to £3,709,000; however, the HLF contribution was confirmed at £1,999,000 in October 2009 (54% of the expected total cost).

The Council allocated £400,000 of capital funding for the project, leaving a balance of £1,310, 000 to be found from fundraising.

In 2012 Cabinet commissioned specialist consultants to carry out reviews of the capital project and the final account. At the same time, Cabinet commissioned the Mid Kent Audit Partnership to review the fundraising arrangements.

Cabinet decided that the Internal Audit report on fundraising would be submitted to the Chief Executive, to report to the Leader of the Council, the Cabinet Member for Economic Development and Transport, Cabinet and the Audit Committee.

The first draft of the Internal Audit report was issued on 21 May 2012. That report has since been updated to reflect the funding position at 31 March 2013 and the updated report was provided to the Chief Executive on 24 April 2013. Minor changes were made to the original draft.

A report from the Chief Executive relating to all aspects of the Museum East Wing Development is shown as an Exempt Report on tonight's agenda.

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**National Fraud Initiative (NFI) – data matching exercise**

The National Fraud Initiative is a biennial data matching exercise carried out on behalf of the Audit Commission. The Council is required to submit a broad range of data which is matched against other data sets that the Commission has obtained from a number of sources. Data sets provided by the Council have included Benefits, Payroll, Creditors, Residents Parking Permits, Licensing, Insurance Claims and Register of Electors.

Internal Audit facilitated the Council's operations and sought to confirm that data matches from the 2011/12 Single Person Discount/Rising 18s exercise were being appropriately investigated and that the new data sets had been correctly and completely submitted for the wider 2012/13 initiative.

For Council Tax Single Person Discount, the outcome was that that claims totalling £90,907 were withdrawn.

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### **Maidstone Governance - Scrutiny Review**

Internal Audit was requested to provide independent project assurance for the Governance (Scrutiny) review. The review was undertaken by a group of elected Members to identify and evaluate the different governance arrangements made available to the Council through the Localism Act. The Auditor was asked to provide assurance that a fair and objective process was followed and that the options were fully evaluated inline with the agreed framework; in addition, that a comprehensive evidence file was maintained to support the findings. A written report and presentation was provided to full Council, where a preferred option was voted on for adoption.

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### **Fraud Service – Business Plan**

The work was conducted to gather key information about fraud services across the Mid-Kent audit partners to inform the business case of the Head of Internal Audit on the potential to have a fraud service within the Internal Audit Partnership. The work consisted of identifying and analysing the work streams of the existing fraud teams, including costs and resource; identifying the income streams from the work conducted by the fraud teams including revenue, grant funding and recharges, and collating recovery statistics from successful fraud investigation work. The comparative sets of data were collated and verified, before being submitted along with the business case to the Partnership board. The eventual outcome is likely to be a shared fraud resource within the Revenues and Benefits team, which concentrates on the tax evasion in relation to Council Tax and Business Rates.

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### **Investigation (Tunbridge Wells – Officer Grievance)**

Internal Audit was requested to support an HR investigation relating to a grievance claim received from a Tunbridge Wells Borough Council member of staff.

The investigation comprised a series of fact finding interviews with the complainant and staff to establish the validity of the claim and to support the management consideration of the case.

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### **Investigation (Tunbridge Wells – Planning Service)**

Internal Audit was requested to investigate concerns that a Planning Officer had been conducting unauthorised private work. Internal Audit section collated evidence to produce a case file for the Management disciplinary investigation.

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### **Investigation (Maidstone Benefits Security Breach)**

The Department for Work and Pensions (DWP) issued a report to the Head of Revenues & Benefits Shared Service showing a suspected security breach by a Council Benefits Officer. According to the report, the Officer had used the secure DWP Customer Information System (CIS) to access personal records relating to family members. Internal Audit was asked to compile an investigation report to consider the suspected security breach, and to independently verify previous access attempts into the system to

rule out any repeated or further breaches of the system. The evidence was considered by a disciplinary panel.

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### **Strategic Risk Management**

Internal Audit is responsible for overseeing the development of Strategic Risk Management within the Council. A fundamental review of the Council's strategic risks was undertaken by the Senior Management Team and Cabinet Members in July/August and a new Risk Register agreed by Cabinet in September 2012. A further workshop was arranged for the Cabinet in January 2013 to agree the allocation of risks and development of risk management action plans and revised Strategic Risk Register was adopted by Cabinet at its meeting in February 2013. The process of obtaining management action plans commenced in March 2013.

Internal Audit takes the role of facilitators of the risk management process but do not have responsibility for the individual risks or for the corporate risk register.

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### **Risk Management Policy**

This is one of four Policy work streams carried out by the audit teams within the Audit partnership. The other topics comprised Money Laundering, Whistle Blowing and Anti-Fraud and Corruption. Each work stream has sought to identify best practice and policies/strategies that can be implemented across the four Councils. The intention is to bring a suite of revised policies for consideration within the Council's policy framework.

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### **Audit Commission Fraud Survey 2011-12**

The Audit Commission requires that the Council undertake an internal fraud survey and submit the results to them in a prescribed format.

Internal Audit coordinated the survey and provided the information to the Commission. There were no issues arising from the survey. The results of the survey have been included within the Audit Commission publication – protecting the Public Purse 2012

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### **Teammate Administration**

Audit resource is required to ensure the effective maintenance of the Audit Teammate system – including training, system developments and upgrades and technical support. This essential support is rotated within the team to minimise disruption to the audit plan and to ensure resilience.

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### **Teammate Project**

Additional Audit Resource was allocated to enable the reporting functionality of the Teammate system to be investigated and developed in order to produce efficiency savings to the audit team when preparing working papers, audit programmes and audit reports. Reporting functionality has also been investigated to identify opportunities for the automation of management responses to audit reports and ongoing monitoring of recommendations and action plans

## Summary Report of Audit Follow Up Assessments April 2012– March 2013

	Follow Up reviews carried out 1 April – March 2013	Date of Follow Up	Audit Assurance Assessment	Follow Up Assurance Assessment	Direction of Travel
1	Use of Consultants	May 2012	Substantial	Substantial	→
2	Website Management	May 2012	Substantial	Substantial	→
3	Elections	May 2012	Substantial	High	↑
4	Parks Income	May 2012	Substantial	Substantial	→
5	Benefits Overpayment & Recovery	May 2012	Substantial	Substantial	→
6	PC Internet Controls	May 2012	Substantial	Substantial	→
7	High Street Improvement Project	May 2012	Substantial	Follow-up to be completed within the High Street Stage 2 Project	
8	NNDR (Collections and Refunds)	May 2012	Substantial	High	↑
9	Housing Options	June 2012	Substantial	High	↑
10	Emergency Planning	August 2012	Limited	Substantial	↑
11	Payroll	August 2012	Substantial	High	↑
12	Events Management	September 2012	Substantial	High	↑
13	Hazlitt Arts Centre	September 2012	Substantial	Substantial	→
14	Payroll	August 2012	Substantial	High	↑
15	Mote Park Regeneration Project	September 2012	Substantial	High	↑
16	General Ledger feeder systems	September 2012	Substantial	Substantial	→
17	Terminations	September 2012	Substantial	High	↑
18	Park & Ride Income	November 2012	Substantial	Substantial	→
19	Members Allowances	December 2012	Substantial	Substantial	→
20	The Gateway	February 2013	Substantial	Substantial	→
21	Parking Enforcement	March 2013	Substantial	Substantial	→
22	Compliance with Officer Code of Conduct	April 2013	Substantial	Substantial	→
23	Complaints	May 2013	Substantial	Substantial	→
24	VEBU	May 2013	Limited	Substantial	↑

### 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:

<b>Controls Assurance Level</b>	<b>Summary description</b>	<b>Detailed definition</b>
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.</p> <p>This is because key controls do not exist with the absence of at least one critical control <b>or</b> 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.</p> <p>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>

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**15 JULY 2013**

### **REPORT OF HEAD OF AUDIT PARTNERSHIP**

**Report prepared by Brian Parsons**

#### **1. AUDIT COMMITTEE – MEMBER SKILLS**

##### 1.1 Issue for Decision

1.1.1 To consider the adoption of a skills matrix for the Audit Committee which will help to inform the selection process for the Committee and identify training needs for new and existing members.

##### 1.2 Recommendation of the Head of Audit Partnership

1.2.1 That the Committee adopt the skills matrix shown at Appendix 1

##### 1.3 Reasons for Recommendation

1.3.1 The CIPFA publication, 'Audit Committees – Practical Guidance for Local Authorities' published in 2005, states that:

To be effective, the members of the audit committee will require certain skills and will benefit from having gained experience in some of the key areas to be considered by the committee. Whilst financial awareness is essential, particularly for the chair, an accounting background or qualification is less important than a broad understanding of the financial, risk and control, and corporate governance issues facing local authorities generally and the council specifically. An ability to question, probe and seek clarification about complex issues is also essential.

1.3.2 The guidance goes on to suggest that all audit committee members should be familiar with:

a. governance – understanding of the requirements of legislation and of local arrangements

b. risk management

- c. internal control assurance
  - d. the organisation's core activities
  - e. accounting issues
  - f. regulation and compliance.
- 1.3.3 A strong and focused Audit Committee not only needs to have stability within its membership but must also ensure that it refreshes its knowledge and skills in addition to expanding its abilities. It must also be recognized that membership of the Committee does change and therefore the skills of the collective Committee membership will change as well.
- 1.3.4 Identifying sufficient members with appropriate skills and experience can be difficult, especially as many such members may already be serving on other committees and thus may not be eligible for membership. Appropriate and timely training for members will help to overcome this problem and build upon the key attributes of independence, a risk-focused attitude, and balanced approach that members should already possess.
- 1.3.5 In the context of skills, it is important to value the skill of being able to ask what may be considered to be, the 'obvious' question. This question, which perversely can be the one that no one asks, can be the key to opening a discussion and thereby informing the Committee about the deeper meaning and potential impact of the matter under consideration.
- 1.3.6 The National Audit Office (NAO) published a good practice guide in January 2012 titled 'The Audit Committee self-assessment checklist. The guide covered a set of good practice questions relating to skills. The NAO is referring to Audit Committees within central government, however the principles are largely appropriate in a local government context.
- 1.3.7 The adoption of a skills matrix will help to inform the selection process for the Committee and identify areas for future training for new and existing members of the Committee.
- 1.3.8 The Committee already has a training plan, which is largely built around the CIPFA guidance but the plan was compiled in isolation from any assessment of skills. The use of the skills matrix will mean that future training can be provided to meet identified needs. However, it is equally important that members of the Audit Committee are pro-active

in raising training related issues so that they can be addressed and a training solution found.

### The Matrix

1.3.9 A skills matrix is shown at Appendix 1. The matrix attempts to bring together the areas set out in the CIPFA guidance and the National Audit Office best practice publication. It also includes some specific aspects that have been referred to at a more local level.

1.3.10 If Members are satisfied that the matrix is appropriate and sufficiently comprehensive, it can be adopted by the Committee.

### 1.4 Alternative Action and why not Recommended

1.4.1 To be effective, the members of the audit committee will require certain skills and will benefit from having gained experience in some of the key areas to be considered by the committee. The skills matrix provides a means of identifying whether members possess those skills and therefore whether training is required.

### 1.5 Impact on Corporate Objectives

1.5.1 The Council is committed to good standards of governance which underpin the achievement of all of the corporate objectives. An effective Audit Committee is a key element of good governance.

### 1.6 Risk Management

1.6.1 The introduction of a skills matrix for the Audit Committee may be seen as an unnecessary step and a discouragement for Members to put themselves forward to serve on the Committee. Hopefully, for the reasons set out in this report, this will not be the case.

### 1.7 Other Implications

#### 1.7.1

1. Financial	X
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


1.7.2 There may be a small cost in providing the training that is identified by the completion of the skill matrix. It is anticipated that this will be met from existing budgets.

1.8 Relevant Documents

1.8.1 Appendices: Appendix 1 Audit Committee Skills Self Assessment Matrix.

1.8.2 Background Documents

'Audit Committees – Practical Guidance for Local Authorities' published in 2005 by CIPFA.

'The Audit Committee self-assessment checklist' – published January 2012 by the National Audit Office.



**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: .....

.....

**Audit Committee – Skills Self Assessment**

Name: .....

	Range of Skills	Yes	No	Comment
1	Do you:			
	a. understand the objectives of the Council and current significant issues for the Council;			
	b. understand the Council’s structure, including key relationships with partners and central government;			
	c. understand the Council’s culture;			
	d. have an understanding of any relevant legislation or other rules governing the Council; and			
	e. have a broad understanding of the Council environment, particularly accountability structures and current major initiatives			
2	Do you:			
	a. understand the principles of ‘governance’ – understanding the requirements of legislation and local arrangements;			
	b. understand ‘risk management’ and how it needs to be used to identify and manage the strategic risks to the delivery of the Council’s objectives; project risks and service risks;			
	c. understand the principle sources of ‘internal control assurance’ – including the role of internal audit;			

**Appendix 1**

	d. consider that you have an understanding of the Council's 'core activities';			
	e. consider that you have an understanding of accounting issues – including understanding the accounting statements that need to be agreed each year;			
	f. consider that you have an understanding of 'regulation and compliance' – and the role of external audit; and			
	g. consider that you understand the Council environment and accountability structures – including the role of the Audit Committee in the context of other Council committees.			

# Agenda Item 12

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**MONDAY 15 JULY 2013**

### **REPORT OF THE CHIEF EXECUTIVE**

**Report prepared by Paul Riley**

#### **1. LOCAL CODE OF CORPORATE GOVERNANCE**

##### 1.1 Issue for Decision

1.1.1 This report provides Audit Committee with an opportunity to review the Local Code of Corporate Governance and make recommendations to Cabinet in relation to their role as the Committee responsible for governance and risk.

##### 1.2 Recommendation of The Chief Executive

1.2.1 That Audit Committee considers the Local Code of Corporate Governance set out at Appendix A and makes appropriate recommendations to Cabinet for their consideration.

##### 1.3 Reasons for Recommendation

1.3.1 The principles and standards of good governance in local government have been considered and debated on various occasions since the early 1990's. Various guides and publications on governance frameworks have been released and in 2003 the Council adopted a local code of corporate governance. This code is regularly reviewed and amendments are reported for approval to Cabinet along with the views of the Audit Committee as part of its role in governance and risk.

1.3.2 Confidence in public sector governance is of critical importance, given the huge investments by government and council taxpayers in local services and the Council has recognised the importance of the core principles as set out in the CIPFA/SOLACE publication "Delivering Good Governance in Local Government" published in 2007. The core principles are:

1. focus on the purpose of the Authority and on outcomes for the community in creating and implementing the vision for the local area;
2. members and officers will work together to achieve a common purpose with clearly defined functions and roles;
3. promote values for the Authority and demonstrate the values of good governance through upholding high standards of conduct and behaviour;
4. take informed and transparent decisions which are subject to effective scrutiny and manage risk;
5. develop the capacity and capability of members and officers to be effective;
6. engage with local people and other stakeholders to ensure robust public accountability.

1.3.3 Since 2004 an officer working group has reviewed and monitored corporate governance issues at an operational level. This group has existed in various guises and with differing levels of officer representation. The current group includes all members of the Corporate Leadership Team, the Head of Audit Partnership, the Head of Policy and Communications and the Head of Finance and Resources.

1.3.4 During 2012/13 the working group has considered the framework in operation and agreed minor amendments which have been reflected in the Local Code of Corporate Governance attached as **Appendix A**.

1.3.5 The Local Code of Corporate Governance will be reported to Cabinet in August 2013 for adoption. The Audit Committee are invited to review the document now and consider any reference the Committee may wish to make to Cabinet for consideration along with the Local Code of Corporate Governance in August 2013.

#### 1.4 Alternative Action and why not Recommended

1.4.1 Consideration of the Local Code of Corporate Governance on an annual basis to ensure it is updated and an effective code is considered best practice. In the past the code has not been reviewed every year and the Audit Committee could recommend to Cabinet not to do so. This approach is not recommended and the officer working group has already agreed to make the review a rolling review in operational terms and to ensure that any changes are reported to Audit Committee and Cabinet on an annual basis.

1.5 Impact on Corporate Objectives

1.5.1 Good corporate governance is an essential part of corporate and customer excellence.

1.6 Risk Management

1.6.1 The Local Code of Corporate Governance identifies the processes used by the Council to involve the public in decision making and those for service delivery and standards. These issues are essential to address reputational risk and to help demonstrate value for money.

1.6.2 The Local Code of Corporate Governance also identifies the processes whereby the Authority addresses risk management as part of good corporate governance arrangements.

1.6.3 Maintaining a Local Code of Corporate Governance that is out of date can mean that changes required to maintain corporate governance are not identified and reported for consideration and approval.

1.7 Other Implications

- 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

1.8.2 **Appendix A** – The Local Code of Corporate Governance

**IS THIS A KEY DECISION REPORT?**

**THIS BOX MUST BE COMPLETED**

No

If yes, this is a Key Decision because: .....

.....

Wards/Parishes affected: .....

.....

## DRAFT

**MAIDSTONE BOROUGH COUNCIL**  
**LOCAL CODE OF CORPORATE GOVERNANCE**  
**JUNE 2013**

**1. Background**

- 1.1 The Council wholly subscribes to the principles of public life as set out by the Committee on Standards and Public Life (The Nolan Committee) in 1995, as amended. The amended principles are:-

**Selflessness** – Holders of public office should act solely in terms of the public interest.

**Integrity** – Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

**Objectivity** – Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

**Accountability** – Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

**Openness** – Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

**Honesty** – Holders of public office should be truthful.

**Leadership** – Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.



1.2 The Council acknowledges the work undertaken by CIPFA/SOLACE on establishing a framework for corporate governance in local government. This work includes the 2007 guidance contained in the publication Delivering Good Governance in Local Government which sets out the six core principles that should underpin the governance arrangements for all public bodies.

**2. Core Principles of Corporate Governance**

2.1 The Council endorse the core principles and the supporting principles as set out in the CIPFA/SOLACE publication on Delivering Good Governance in Local Government, published in 2007 and intend to use these principles to monitor and control Corporate Governance in Maidstone Borough Council to ensure that the Authority is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

2.2 The core principles and supporting principles are as follows:-

1) The Authority will focus on its purpose and on outcomes for the community in creating and implementing a vision for the local area and will:

- Exercise strategic leadership by developing and clearly communicating the Authority's purpose and vision and its intended outcome for citizens and service users;
- Ensure that users receive a high quality of service whether directly, or in partnership, or by commissioning; and
- Ensure that the Authority makes best use of resources and that tax payers and service users receive excellent value for money.

2) Members and officers will work together to achieve a common purpose with clearly defined functions and roles and will:

- Ensure effective leadership throughout the Authority and be clear about executive and non-executive functions and of the roles and responsibilities of the Scrutiny function;
- Ensure that a constructive working relationship exists between Authority Members and officers and that the responsibility of Members and officers are carried out to a high standard; and
- Ensure relationships between the Authority, its partners and the public are clear so that each knows what to expect of the other.

- 3) Members and officers will promote the core values for the Authority and demonstrate the values of good governance through upholding high standards of conduct and behaviour and will:
  - Ensure Authority Members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance; and
  - Ensure that organisational values are put into place and are effective.
- 4) The Authority will take informed and transparent decisions which are subject to effective scrutiny and will manage risk and will:
  - Be rigorous and transparent about how decisions are taken in listening and acting on the outcomes of constructive scrutiny; and
  - Have good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs; and
  - Ensure that an effective risk management system is in place; and
  - Ensure that legal powers are used to the full benefit of the citizens of communities in the area.
- 5) The Authority will develop the capacity and capability of Members and officers to be effective and will:
  - Make sure that Members and officers have the skills, knowledge, experience and resources they need to perform well in their roles;
  - Develop the capability of people with governance responsibilities and evaluate their performance as individuals and as a group; and
  - Encourage new talent for membership of the Authority so that best use can be made of individual's skills and resources in balancing continuity and renewal.
- 6) The Authority will engage with local people and other stakeholders to ensure robust public accountability and will:
  - Exercise leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountable relationships;

- Take an active and planned approach to dialogue with and accountability to, the public to ensure effective and appropriate service delivery whether directly by the Authority, in partnership or by commissioning; and
- Make best use of human resources by taking an active and planned approach to meeting responsibility to staff.

**3. Detailed Implementation of Core Principles of Corporate Governance**

3.1 In broad terms Maidstone Borough Council addresses Corporate Governance through the following main areas:-

- a) **Constitution** – Constitution has a comprehensive scheme of delegation to Members and officers and therefore clearly sets out the arrangements for the provision of services. This includes effective Overview and Scrutiny, Standards and Audit Committee arrangements. The Constitution is backed up by Codes of Conduct for both officers and Members;
- b) **Vision** - The Council has a long term vision (through the sustainable community strategy) with short to medium term delivery through the Strategic Plan, which is reviewed annually. The delivery of priorities is related to funding availability and capacity through the Budget Strategy and is based on consultation with partners and public;
- c) **Comprehensive Performance Management** - arrangements are in place incorporating strategic and service based risk management and business continuity. Reporting on performance is undertaken through quarterly reports on the Authority’s Key Performance Indicators, six monthly reports on PIs and monthly reviews by officers of service performance through Reach the Summit. A six monthly review is undertaken of the Corporate Improvement Plan. The system of Performance Management runs in parallel with and is related to a comprehensive system of financial management;
- d) **Partners and Public** – Partners and the public are consulted regularly on the Authority’s service priorities and budget issues and reports to the public on finance and performance are undertaken through Borough Update and an annual report;
- e) **Staffing** – There is a comprehensive Code of Conduct for officers and Corporate Governance is embedded in the Authority’s core values through STRIVE which embeds customer service, delivery of performance, integrity and high standards of Corporate Governance and Value for Money and efficiency;

3.2 Attached at Appendix 1 is a schedule showing the detailed arrangements within Maidstone Borough Council for delivery of the core principles. The schedule shows the core principles, the supporting principles, the requirements for local authorities to deliver the principles, best practice examples of source documents and good principles and this Authority's arrangements to address the principles and best practice (with links to the source documents quoted). Where appropriate they will be developed and enhanced to ensure the highest level of corporate governance within the Authority.

.....  
Chief Executive

.....  
Leader

**LOCAL CODE OF CORPORATE GOVERNANCE****UPDATED JUNE 2013****BASED ON 2007 CIPFA/SOLACE PRINCIPLES****CORE PRINCIPLE****1. FOCUSING ON THE PURPOSE OF THE AUTHORITY AND ON OUTCOMES FOR THE COMMUNITY AND CREATING AND IMPLEMENTING A VISION FOR THE LOCAL AREA**

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Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
<ul style="list-style-type: none"> <li>Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcome for citizens and service users</li> </ul>	<ul style="list-style-type: none"> <li>Develop and promote the authority's purpose and vision</li> </ul>	<ul style="list-style-type: none"> <li>Used as a basis for: <ul style="list-style-type: none"> <li>Corporate and service planning</li> <li>Shaping the community strategy</li> <li>local area or performance agreements</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The Sustainable Community Strategy adopted following consultation with the public</li> <li>Community Strategy agreed through Maidstone Locality Board</li> <li>Strategic Plan agreed and reviewed annually in parallel with Budget Strategy</li> <li>Communication &amp; Consultation Strategy agreed</li> <li>Service Plans based on cascade from Strategic Plan</li> </ul>

Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
84	<ul style="list-style-type: none"> <li>Review on a regular basis the authority's vision for the local area and its impact on the authority's governance arrangements</li> </ul>	<ul style="list-style-type: none"> <li>Governance code</li> </ul>	<ul style="list-style-type: none"> <li>Strategic Plan reviewed regularly to ensure public's views are taken into account</li> <li>Annual review of Local Code of Corporate Governance</li> </ul>
	<ul style="list-style-type: none"> <li>Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all parties</li> </ul>	<ul style="list-style-type: none"> <li>Partnership protocol</li> <li>Governance code</li> </ul>	<ul style="list-style-type: none"> <li>Partnership (shared service) protocol agreed which includes the requirement for a business case, risk assessment, exit strategy and other aspects of good management</li> <li>Review of partnerships undertaken by Overview &amp; Scrutiny Committee</li> <li>Follow up actions implemented</li> </ul>
	<ul style="list-style-type: none"> <li>Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance</li> </ul>	<ul style="list-style-type: none"> <li>Annual financial statements</li> <li>Annual business plan</li> <li>Formal annual report</li> </ul>	<ul style="list-style-type: none"> <li>Annual report prepared and published in Downs Mail and available on website</li> <li>Annual report supplemented by articles in Borough Update</li> <li>Annual report includes Summarised Financial Statements</li> </ul>

Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
<p>85</p> <ul style="list-style-type: none"> <li>Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning</li> </ul>	<ul style="list-style-type: none"> <li>Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available</li> </ul>	<ul style="list-style-type: none"> <li>This information is reflected in the authority's:               <ul style="list-style-type: none"> <li>Corporate Plan</li> <li>annual business plan</li> <li>medium-term financial strategy</li> <li>resourcing plan</li> <li>place survey every 2 years</li> </ul> </li> <li>in order to ensure improvement</li> </ul>	<ul style="list-style-type: none"> <li>Strategic Plan and Budget Strategy include Performance and resource requirements</li> <li>Medium Term Financial Strategy plans resource requirements and affordability</li> <li>Effective performance management system in place</li> <li>Summary of performance included in Council Tax leaflet published on the Council's website</li> </ul>
	<ul style="list-style-type: none"> <li>Put in place effective arrangements to identify and deal with failure in service delivery</li> </ul>	<ul style="list-style-type: none"> <li>Complaints procedure</li> <li>3 year programme of internal audit activity.</li> <li>Performance management arrangements</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive Complaints procedures in place</li> <li>Quarterly report on complaints to Overview &amp; Scrutiny Committee</li> <li>Effective performance management process in place (Reach the Summit)</li> </ul>
<ul style="list-style-type: none"> <li>Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money</li> </ul>	<ul style="list-style-type: none"> <li>Decide how value for money is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively. Measure the environmental impact of policies, plans and decisions.</li> </ul>	<ul style="list-style-type: none"> <li>The results are reflected in authority's performance plans and in reviewing the work of the authority.</li> </ul>	<ul style="list-style-type: none"> <li>Value for Money Strategy agreed</li> <li>The Corporate Improvement Group co-ordinates and initiates VFM agenda</li> <li>RTS monitors performance at Business Unit level</li> <li>Strategic Plan KPI's are reported regularly to Cabinet and Overview &amp; Scrutiny Committee</li> <li>Use of benchmarking</li> </ul>

**CORE PRINCIPLE****2. MEMBERS AND OFFICERS WORKING TOGETHER TO ACHIEVE A COMMON PURPOSE WITH CLEARLY DEFINED FUNCTIONS AND ROLES**

Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
<ul style="list-style-type: none"> <li>Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function.</li> </ul>	<ul style="list-style-type: none"> <li>Set out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the authority's approach towards putting this into practice.</li> </ul>	<ul style="list-style-type: none"> <li>Constitution</li> <li>Record of decisions and supporting materials</li> </ul>	<ul style="list-style-type: none"> <li>Constitution sets out roles and responsibilities including a scheme of delegation</li> <li>Protocol on relationships between Members and officers in place</li> <li>All decisions recorded and distributed</li> </ul>
	<ul style="list-style-type: none"> <li>Set out a clear statement of the respective roles and responsibilities of other authority members, members generally and senior officers.</li> </ul>	<ul style="list-style-type: none"> <li>Constitution</li> <li>Conditions of employment</li> </ul>	<ul style="list-style-type: none"> <li>Constitution</li> <li>Conditions of employment</li> </ul>
<p>Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard.</p>	<ul style="list-style-type: none"> <li>Determine a scheme of delegation and reserve powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required.</li> </ul>	<ul style="list-style-type: none"> <li>Constitution</li> <li>Scheme of delegation</li> <li>Statutory provisions</li> </ul>	<ul style="list-style-type: none"> <li>Constitution and scheme of delegation</li> <li>Regular review and amendment to Constitution to reflect changes</li> </ul>



Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
	<ul style="list-style-type: none"> <li>• Make a chief executive or equivalent responsible and accountable to the authority for all aspects of operational management</li> </ul>	<ul style="list-style-type: none"> <li>• Conditions of employment</li> <li>• Scheme of delegation</li> <li>• Statutory provisions</li> <li>• Job descriptions/specification</li> <li>• Performance management system</li> </ul>	<ul style="list-style-type: none"> <li>• Chief Executive is Head of Paid Service with written conditions of employment and job description</li> <li>• Scheme of delegation included in Constitution</li> <li>• Regular Performance Appraisal by Members</li> </ul>
87	<ul style="list-style-type: none"> <li>• Develop protocols to ensure that the leader and chief executive (or equivalents) negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained.</li> </ul>	<ul style="list-style-type: none"> <li>• Chief executive and leader pairing meet regularly to maintain effective communication</li> </ul>	<ul style="list-style-type: none"> <li>• Informal meeting between Leader and Chief Executive after Annual Council to agree plan of action for year</li> <li>• Regular meetings between Leader and Chief Executive</li> </ul>
	<ul style="list-style-type: none"> <li>• Make a senior officer (the S151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.</li> </ul>	<ul style="list-style-type: none"> <li>• Section 151 responsibilities</li> <li>• Statutory provision</li> <li>• Statutory reports</li> <li>• Budget documentation</li> <li>• Job description/specification</li> </ul>	<ul style="list-style-type: none"> <li>• Chief Finance Officer/Director of Regeneration &amp; Communities is Section 151 Officer</li> <li>• Member of Corporate Leadership Team</li> <li>• Responsibilities set out in Constitution/Financial Procedure Rules</li> <li>• Budget Strategy and other Finance reports presented by Chief Finance Officer/Director of Regeneration &amp; Communities</li> <li>• Job Description and conditions of employment in place</li> </ul>

Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
	<ul style="list-style-type: none"> <li>• Make a senior officer (usually the monitoring officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring Officer provisions</li> <li>• Statutory provisions</li> <li>• Job description/specification</li> </ul>	<ul style="list-style-type: none"> <li>• The Head of Legal Services is Monitoring Officer</li> <li>• Job description and conditions of employment in place</li> <li>• Responsibilities set out in Constitution</li> <li>• Member of Corporate Leadership Team</li> </ul>
<ul style="list-style-type: none"> <li>• Ensuring relationships between the authority, its partners and the public are clear so that each knows what to expect of the other.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop protocols to ensure effective communication between members and officers in their respective roles</li> </ul>	<ul style="list-style-type: none"> <li>• Member/officer protocol</li> </ul>	<ul style="list-style-type: none"> <li>• Protocol in place for Member/Officer relationship</li> </ul>
	<ul style="list-style-type: none"> <li>• Set out the terms and conditions for remuneration of members and officers and an effective structure for managing the process, including an effective remuneration panel (if applicable)</li> </ul>	<ul style="list-style-type: none"> <li>• Pay and conditions policies and practices</li> </ul>	<ul style="list-style-type: none"> <li>• Independent Remuneration Panel in place for Members</li> <li>• Procedures in place for agreeing pay and conditions for staff</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure that effective mechanisms exist to monitor service delivery</li> </ul>		<ul style="list-style-type: none"> <li>• RTS reports quarterly on business units performance</li> <li>• KPI's performance reported to Cabinet and Overview &amp; Scrutiny Committee</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure that the organisation's vision, Strategic Plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated</li> </ul>	<ul style="list-style-type: none"> <li>• Strategy</li> <li>• Corporate plans</li> <li>• Budgets</li> <li>• Performance plan/regime</li> </ul>	<ul style="list-style-type: none"> <li>• Consultation Strategy in place</li> <li>• Strategic Plans and Budget Strategy developed with public consultation</li> <li>• Actual performance reported to public through Annual Report and Council Tax publication</li> </ul>

Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
	<ul style="list-style-type: none"> <li>• When working in partnership ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority</li> </ul>	<ul style="list-style-type: none"> <li>• Protocols for partnership working include a clear statement of the partnership principles and objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership protocol agreed</li> <li>• Partnerships agreed by Members</li> <li>• Partnerships include clear statements of principles and objectives</li> <li>• Partnership information on website</li> </ul>
68	<ul style="list-style-type: none"> <li>• When working in partnership:             <ul style="list-style-type: none"> <li>- Ensure that there is clarity about the legal status of the partnership</li> <li>- Ensure that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• For each partnership there is:             <ul style="list-style-type: none"> <li>- clarity of each partner's role within the partnership</li> <li>- definition of roles of partnership board members</li> <li>- line management responsibilities for staff who support the partnership</li> <li>- a statement of funding sources for joint projects and clear accountability for proper financial administration</li> <li>- a protocol for dispute resolution within the partnership</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Partnership protocol includes requirement for clarity of roles, responsibilities, governance arrangements and other relevant aspects</li> <li>• Financial requirements of Partnerships set out in Financial Regulations in Constitution</li> <li>• Shared services partnerships are subject to a legal agreement</li> </ul>

**CORE PRINCIPLE****3. PROMOTING VALUES FOR THE AUTHORITY AND DEMONSTRATING THE VALUES OF GOOD GOVERNANCE THROUGH UPHOLDING HIGH STANDARDS OF CONDUCT AND BEHAVIOUR**

Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements	
06	<ul style="list-style-type: none"> <li>Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect</li> </ul>	<ul style="list-style-type: none"> <li>Annual Governance Statement</li> </ul>	<ul style="list-style-type: none"> <li>Constitution</li> <li>Effective Audit, Standards and Overview and Scrutiny Committees</li> <li>Annual Governance Statement approved by Leader and Chief Executive</li> </ul>
	<ul style="list-style-type: none"> <li>Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols</li> </ul>	<ul style="list-style-type: none"> <li>Members'/officers' code of conduct</li> <li>Performance appraisal</li> <li>Complaints procedures</li> <li>Anti-fraud and corruption policy</li> <li>Member/officer protocols</li> </ul>	<ul style="list-style-type: none"> <li>Code of Conduct for Members</li> <li>Performance appraisal processes in place</li> <li>Staff Code of Conduct</li> <li>Whistleblowing and Anti-Fraud and Corruption Policies in place</li> <li>Audit Committee review governance policies</li> <li>Member/Officer protocol agreed</li> <li>Complaints procedures in place</li> </ul>	

Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
	<ul style="list-style-type: none"> <li>Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice.</li> </ul>	<ul style="list-style-type: none"> <li>Standing orders</li> <li>Codes of conduct</li> <li>Financial regulations</li> </ul>	<ul style="list-style-type: none"> <li>Constitution sets out requirements</li> <li>Codes of Conduct in place</li> <li>Financial Regulations in place and reviewed</li> </ul>
<ul style="list-style-type: none"> <li>Ensuring that organisational values are put into practice and are effective.</li> </ul> <p>91</p>	<ul style="list-style-type: none"> <li>Develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations and communicate these with members, staff, the community and partners</li> </ul>	<ul style="list-style-type: none"> <li>Codes of conduct</li> </ul>	<ul style="list-style-type: none"> <li>Codes of Conduct in place</li> <li>Core values STRIVE agreed and embedded</li> </ul>
	<ul style="list-style-type: none"> <li>Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice</li> </ul>	<ul style="list-style-type: none"> <li>Codes of conduct</li> </ul>	<ul style="list-style-type: none"> <li>Codes of Conduct in place</li> </ul>
	<ul style="list-style-type: none"> <li>Develop and maintain an effective standards committee</li> </ul>	<ul style="list-style-type: none"> <li>Terms of reference</li> <li>Regular reporting to the Council</li> </ul>	<ul style="list-style-type: none"> <li>Well established Standards Committee with Independent Members</li> <li>Regular reports to Council</li> </ul>

Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
92	<ul style="list-style-type: none"> <li>• Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority</li> </ul>	<ul style="list-style-type: none"> <li>• Decision-making practices</li> </ul>	<ul style="list-style-type: none"> <li>• Reports to Executive and Corporate Leadership Team include a range of implications including impact on Key Priorities</li> </ul>
	<ul style="list-style-type: none"> <li>• In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively</li> </ul>	<ul style="list-style-type: none"> <li>• Protocols for partnership working</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership protocol agreed</li> </ul>

**CORE PRINCIPLE****4. TAKING INFORMED AND TRANSPARENT DECISIONS WHICH ARE SUBJECT TO EFFECTIVE SCRUTINY AND MANAGING RISK**

Supporting principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
<p>66</p> <ul style="list-style-type: none"> <li>Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny.</li> </ul>	<ul style="list-style-type: none"> <li>Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisation for which it is responsible</li> </ul>	<ul style="list-style-type: none"> <li>Scrutiny is supported by robust evidence and data analysis</li> </ul>	<ul style="list-style-type: none"> <li>Well established Overview &amp; Scrutiny structure which is regularly reviewed</li> <li>Reports from Overview &amp; Scrutiny Committees well received and effective</li> </ul>
	<ul style="list-style-type: none"> <li>Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based</li> </ul>	<ul style="list-style-type: none"> <li>Decision-making protocols record of decisions and supporting materials</li> </ul>	<ul style="list-style-type: none"> <li>Constitution sets out delegation for decision making</li> <li>Agreed report format to ensure all relevant details included</li> <li>Agreed policy for recording decisions, including time for call-in by Overview &amp; Scrutiny Committee</li> <li>Procedure for urgent decisions including reporting to Council</li> </ul>

Supporting principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
	<ul style="list-style-type: none"> <li>Put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice</li> </ul>	<ul style="list-style-type: none"> <li>Members' Code of conduct</li> <li>Officers Code of conduct</li> </ul>	<ul style="list-style-type: none"> <li>Codes of Conduct in place</li> <li>Whistleblowing policy in place</li> <li>Declarations of Interest in place</li> <li>Related Party Transactions Declarations in place</li> </ul>
94	<ul style="list-style-type: none"> <li>Develop and maintain an effective audit committee (or equivalent) which is independent of the executive and scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee</li> </ul>	<ul style="list-style-type: none"> <li>Terms of reference</li> <li>Membership</li> <li>Training for committee members</li> </ul>	<ul style="list-style-type: none"> <li>Audit Committee in place with terms of reference and composition in line with CIPFA recommendations</li> <li>Regular training provided,</li> <li>Skills and competencies matrix prepared</li> <li>Annual review of effectiveness of Audit Committee</li> <li>Annual Audit Committee report to full Council</li> <li>Mid Kent Internal Audit partnership in place, which regularly reports to the Committee and provides support to the Committee – including training</li> </ul>



Supporting principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
	<ul style="list-style-type: none"> <li>Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints</li> </ul>	<ul style="list-style-type: none"> <li>Complaints procedure</li> </ul>	<ul style="list-style-type: none"> <li>Complaints procedures and reporting arrangements in place. Procedure set out in website</li> </ul>
<ul style="list-style-type: none"> <li>Having good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs.</li> </ul> <p>95</p>	<ul style="list-style-type: none"> <li>Ensure that those making decisions whether for the authority or the partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications</li> </ul>	<ul style="list-style-type: none"> <li>Members' induction scheme</li> <li>Training for committee chairs</li> </ul>	<ul style="list-style-type: none"> <li>Members induction scheme implemented annually</li> <li>Members training programme agreed annually</li> <li>Periodic Member Briefing Sessions on current issues</li> <li>Member Charter in place</li> </ul>
	<ul style="list-style-type: none"> <li>Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately</li> </ul>	<ul style="list-style-type: none"> <li>Record of decision making and supporting materials</li> </ul>	<ul style="list-style-type: none"> <li>Report format includes need to consider legal and financial implications</li> <li>The process of report approval requires agreement of finance and legal professionals where relevant</li> </ul>
<ul style="list-style-type: none"> <li>Ensuring that an effective risk management system is in place.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that risk management is embedded into the culture of the authority, with Members and Managers at all levels recognising that risk management is part of their jobs</li> </ul>	<ul style="list-style-type: none"> <li>Risk management protocol</li> <li>Financial standards and regulations</li> </ul>	<ul style="list-style-type: none"> <li>Strategic Risk Strategy and Register regularly reviewed and reported to Cabinet and Audit Committee.</li> <li>Risk Management is included in standard report format</li> <li>Training provided to Members and managers</li> </ul>

Supporting principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
	<ul style="list-style-type: none"> <li>• Ensure that arrangements are in place for whistle-blowing to which staff and all those contracting with the Authority have access</li> </ul>	<ul style="list-style-type: none"> <li>• Whistle-blowing policy</li> </ul>	<ul style="list-style-type: none"> <li>• Whistleblowing policy in place. Policy is promoted to staff and contractors.</li> </ul>
<ul style="list-style-type: none"> <li>• Using their legal powers to the full benefit of the citizens and communities in their area.</li> </ul>	<ul style="list-style-type: none"> <li>• Actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine but also strive to utilise powers to the full benefit of their communities</li> </ul>	<ul style="list-style-type: none"> <li>• Constitution</li> <li>• Monitoring officer provisions</li> <li>• Statutory provision</li> </ul>	<ul style="list-style-type: none"> <li>• Constitution includes legal powers</li> <li>• Report format covers legal implications</li> <li>• New legislation is monitored by Monitoring Officer and Corporate Leadership Team</li> </ul>
96	<ul style="list-style-type: none"> <li>• Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law</li> </ul>		<ul style="list-style-type: none"> <li>• Monitoring Officer in post and member of Corporate Leadership Team</li> <li>• Legal implications part of standard report format</li> </ul>
	<ul style="list-style-type: none"> <li>• Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice – into their procedures and decision-making processes</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring officer provisions</li> <li>• Job description/specification</li> <li>• Statutory provision</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring Officer in post and member of Corporate Leadership Team</li> <li>• Legal implications part of standard report format</li> </ul>

**CORE PRINCIPLE****5. DEVELOPING THE CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS TO BE EFFECTIVE**

Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
<p>97</p> <ul style="list-style-type: none"> <li>Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles.</li> </ul>	<ul style="list-style-type: none"> <li>Provide induction programmes tailored to individual needs and opportunities for members and officer to update their knowledge on a regular basis</li> </ul>	<ul style="list-style-type: none"> <li>Training and development plan</li> <li>Induction programme</li> <li>Update courses/information</li> </ul>	<ul style="list-style-type: none"> <li>Induction programme for new Members</li> <li>Annual Training Plan for Members</li> <li>Briefing Sessions for Members</li> </ul>
	<ul style="list-style-type: none"> <li>Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority</li> </ul>	<ul style="list-style-type: none"> <li>Job description/personal specifications membership of top management team</li> </ul>	<ul style="list-style-type: none"> <li>Job descriptions and terms of employment in place</li> <li>Members of Corporate Leadership Team</li> <li>Members of Senior Leadership Team</li> <li>Annual performance appraisal</li> </ul>

Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
<ul style="list-style-type: none"> <li>Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group.</li> </ul>	<ul style="list-style-type: none"> <li>Assess the skills required by Members and officers and make a commitment to develop those skills to enable roles to be carried out effectively</li> </ul>	<ul style="list-style-type: none"> <li>Training development plan</li> </ul>	<ul style="list-style-type: none"> <li>Training Plans for Members and Officers</li> <li>Investors in People accreditation</li> <li>Annual Central training budget</li> <li>Training Plans in place</li> <li>Officer review through Personal Appraisals Process.</li> <li>Extensive officer Training Plan cascading from PAP process</li> </ul>
<p>86</p>	<ul style="list-style-type: none"> <li>Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed</li> </ul>	<ul style="list-style-type: none"> <li>Training and development plan reflect requirements of a modern councillor including:                             <ul style="list-style-type: none"> <li>the ability to scrutinise and challenge</li> <li>the ability to recognise when outside advice is required</li> <li>advice on how to act as an ambassador for the community</li> <li>leadership and influencing skills</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Training Plans in place</li> <li>Member development policy in place, based on South East Employers Member Development Charter</li> <li>Regular training for Audit, Standards and Overview and Scrutiny Committees</li> </ul>

Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
	<ul style="list-style-type: none"> <li>Ensure that effective arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan which might, for example, aim to address any training or development needs.</li> </ul>	<ul style="list-style-type: none"> <li>Performance management system</li> </ul>	<ul style="list-style-type: none"> <li>Regular reports by Executive to Overview and Scrutiny Committees.</li> <li>Delivery of Key Performance Indicators regularly reported</li> <li>Member development policy in place</li> </ul>
<ul style="list-style-type: none"> <li>Encouraging new talent for membership of the authority so that best use can be made of individuals' skills and resources in balancing continuity and renewal.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that effective arrangements designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Authority</li> </ul>	<ul style="list-style-type: none"> <li>Strategic partnership framework</li> <li>Stakeholders' forums' terms of reference</li> <li>Area forums' roles and responsibilities</li> <li>Residents' panel structure</li> </ul>	<ul style="list-style-type: none"> <li>Effective Locality Board in place</li> <li>Meetings of Executive held in community</li> <li>Communication and consultation strategy in place</li> </ul>
66	<ul style="list-style-type: none"> <li>Ensure that career structures are in place for members and officers to encourage participation and development</li> </ul>	<ul style="list-style-type: none"> <li>Succession planning</li> </ul>	<ul style="list-style-type: none"> <li>Succession planning policy in place</li> <li>Service structure in place</li> </ul>

**CORE PRINCIPLE****6. ENGAGING WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS TO ENSURE ROBUST PUBLIC ACCOUNTABILITY**

Supporting Principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
<ul style="list-style-type: none"> <li>Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.</li> </ul>	<ul style="list-style-type: none"> <li>Make clear to themselves, all staff and the community to whom they are accountable and for what</li> </ul>	<ul style="list-style-type: none"> <li>Community strategy</li> </ul>	<ul style="list-style-type: none"> <li>Community strategy in place</li> <li>Strong Overview and Scrutiny arrangements in place</li> <li>Strong consultation processes.</li> </ul>
	<ul style="list-style-type: none"> <li>Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required</li> </ul>		<ul style="list-style-type: none"> <li>Communication and Consultation Strategy in place and reviewed.</li> <li>Complaints procedure and reporting arrangements in place</li> <li>Effective LSP in place</li> </ul>
	<ul style="list-style-type: none"> <li>Produce an annual report on the activity of the scrutiny function</li> </ul>	<ul style="list-style-type: none"> <li>Annual report</li> </ul>	<ul style="list-style-type: none"> <li>Annual Scrutiny report produced</li> <li>Work programme for Scrutiny developed through workshops involving all Members</li> </ul>

Supporting principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
<ul style="list-style-type: none"> <li>Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that they operate effectively</li> </ul>	<ul style="list-style-type: none"> <li>Community strategy</li> <li>Processes for dealing with competing demands within the community</li> </ul>	<ul style="list-style-type: none"> <li>Community Strategy in place and reviewed</li> <li>Communications Strategy in place</li> <li>Consultation on issues such as Budget options</li> </ul>
	<ul style="list-style-type: none"> <li>Hold meetings in public unless there are good reasons for confidentiality</li> </ul>		<ul style="list-style-type: none"> <li>Policy of holding meetings in public</li> <li>Meetings webcast</li> </ul>
101	<ul style="list-style-type: none"> <li>Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands</li> </ul>		<ul style="list-style-type: none"> <li>Communications Strategy in place and reviewed</li> </ul>

Supporting principles	The Code should reflect the requirement for local authorities to:	Source documents/good practice/other means that may be used to demonstrate compliance	MBC Arrangements
	<ul style="list-style-type: none"> <li>Establish a clear policy on the types of issues they will meaningfully consult on or engage with the public and service users about including a feedback mechanism for those consultees to demonstrate what has changed as a result</li> </ul>	<ul style="list-style-type: none"> <li>Partnership framework</li> <li>Communication strategy</li> </ul>	<ul style="list-style-type: none"> <li>Partnership protocol agreed</li> <li>Communication Strategy in place and reviewed</li> </ul>
102	<ul style="list-style-type: none"> <li>On an annual basis, publish a performance plan giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period</li> </ul>	<ul style="list-style-type: none"> <li>Annual report</li> <li>Annual financial statements</li> <li>Corporate plan</li> <li>Annual business plan</li> <li>Annual Performance Plan</li> </ul>	<ul style="list-style-type: none"> <li>Annual report produced</li> <li>Annual financial statements agreed by Council</li> <li>Corporate Plan and Strategic Plan Performance Report agreed by Cabinet</li> <li>All available on website</li> </ul>
	<ul style="list-style-type: none"> <li>Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so</li> </ul>	<ul style="list-style-type: none"> <li>Constitution</li> </ul>	<ul style="list-style-type: none"> <li>Local Code of Corporate Governance adopted and reviewed annually</li> <li>Constitution</li> </ul>
<ul style="list-style-type: none"> <li>Making best use of human resources by taking an active and planned approach to meet responsibility to staff.</li> </ul>	<ul style="list-style-type: none"> <li>Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making</li> </ul>	<ul style="list-style-type: none"> <li>Constitution</li> </ul>	<ul style="list-style-type: none"> <li>People Strategy agreed</li> <li>Staff Forum and Unit Manager's Group in place</li> <li>Employment Panel in place</li> </ul>



## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**15<sup>TH</sup> JULY 2013**

### **REPORT OF HEAD OF FINANCE & RESOURCES**

**Report prepared by Paul Holland (Senior Accountant)**

#### **1. STATEMENT OF ACCOUNTS 2012/13**

##### 1.1 Issue for Decision

1.1.1 To note the completed Statement of Accounts 2012/13 prior to their submission for external audit.

##### 1.2 Recommendation of Head of Finance & Resources

1.2.1 That the Committee notes the un-audited completed Statement that has been produced in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

##### 1.3 Reasons for Recommendation

1.3.1 Under the amended Accounts & Audit Regulations 2011 there is no longer a requirement for the Statement of Accounts to be formally approved by Audit Committee prior to their submission for external audit. Instead the Statement has to be signed by the Director of Regeneration & Communities by 30<sup>th</sup> June, and is then subject to external audit. The audited accounts are then required to be approved by Audit Committee by 30<sup>th</sup> September.

1.3.2 However, it is considered appropriate to bring the Statement to Audit Committee at this stage as it gives Members an early opportunity to see the Statement and to ask any relevant questions of Officers.

##### 1.4 Statement of Accounts 2012/13

1.4.1 The un-audited Statement is attached at **Appendix A**.

1.4.2 After the introduction of International Financial Reporting Standards in the 2010/11 Code of Practice there were no significant changes in the accounting requirements for 2012/13.

1.4.3 The Statement is evidence that the Council has been able to continue to effectively manage its resources through the difficult economic conditions of the last few years, and that it is in a good position to deal with the continuing economic uncertainty and associated challenges that lie ahead. The particular points that highlight this are as follows:

- The General Fund balance has increased from £10.1m to £12.6m, in line with previous decisions made by Cabinet and Council, and is a consequence of slippage in both revenue and capital spend against the budget for 2012/13.
- The potential for slippage was identified at an early stage through regular monitoring reports, which enabled Cabinet to make informed and early decisions about future resource allocation.
- There was no need to borrow during the year, either for short-term cash flow purposes, or to fund the capital programme.
- The good financial position of the Council is a reflection of the robustness and effectiveness of the budget strategy process.

1.4.4 The key messages from the Statement are as follows:

- a) There has been an increase in Long Term Liabilities of £1.8m, which is primarily due to a change in the deficit on the Pension Fund, which has increased from £46.6m to £49.0m, which is a significantly smaller increase than was the case on the 2011/12 Balance Sheet. This movement reflects the actuary's short term view on the value of the Pension Funds' assets and differs from the three yearly, long term actuarial review.
- b) Assets Held for Sale have reduced by £2.9m following the disposals of 13 Tonbridge Road and the land at Hayle Place.
- c) There has been an increase in Current Assets of £2.4m, which is a reflection of money due from central government in respect of housing benefits.

1.4.5. The Committee will note that the Statement of Accounts includes details of Related Party Transactions which, in part, are based upon returns from Members and Senior Officers. The details included are based upon returns received to date and there are no follow up actions required from 2012/13.

1.4.6. Members will recall that the external auditors made a number of specific recommendations regarding the Statement of Accounts following their audit of the 2011/12 accounts. Particular issues were identified around capital accounting and revaluations. A

specialised fixed asset register system is in the process of being implemented to replace the current spreadsheet based system. It had been hoped that this would be in place for the 2012/13 closedown process, but this was not possible in the time available, however it will be fully operational in time for the 2013/14 closedown. There has been closer contact with the valuers in respect of the valuations for 2012/13 valuations and these were delivered within the agreed deadlines.

1.4.7. In addition the Grant Thornton audit team met with the finance team earlier this year to explain how the audit will work and what their expectations were in respect of information and working papers. A list of the required working papers was subsequently supplied and has been used by the Finance team during the closedown process.

1.4.8. The audit of the accounts commenced on 8<sup>th</sup> July 2013 and the External Auditor expects to formally issue his report to Members in good time to meet the Council’s statutory timetable.

1.5 Alternative Action and why not Recommended

1.5.1 There are no alternatives as the production of the Statement of Accounts is a statutory requirement.

1.6 Impact on Corporate Objectives

1.6.1 Production of a Statement of Accounts that do not contain any material or significant errors is a key element of the annual external assessment process. It is therefore important that the Statement meets this requirement.

1.7 Risk Management

1.7.1 The primary risk is that the Council fails to produce its accounts in accordance with the requirements of the Code of Practice. A risk assessment has been undertaken to mitigate this risk.

1.8 Other Implications

1.8.1

- 1. Financial
- 2. Staffing
- 3. Legal
- 4. Equality Impact Needs Assessment

X
X

- 5. Environmental/Sustainable Development
- 6. Community Safety
- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management


1.8.2 Appendices

**Appendix A** – Draft un-audited Statement of Accounts 2012/13

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: .....

.....

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## **EXPLANATORY FOREWORD**

### **Review of 2012/13 Financial Year**

2012/13 has been another challenging year for the Council. In setting the budget for the year a series of changes were implemented to the medium term financial strategy and a plan put in place to deliver savings that would meet the Government reductions in funding whilst delivering the outcomes required by the Council's strategic plan. The Council has successfully delivered these changes for 2012/13.

After allowing for the carry forward of resources the revenue account showed a net underspend of £2.699m against the approved budget of £19.940m. The Capital Programme has remained significantly on target and is fully funded through asset disposals, grants and use of resources set aside from revenue. The rate of collection on Council Tax and Non-Domestic rates has remained at an acceptable level, and the return on investments made slightly exceeded the targeted figure over the course of the year.

The overall level of balances at 31<sup>st</sup> March 2013 was £12.578m, which was an increase of £2.474m over the year. This means that balances are above the minimum approved level of working balances by £4.518m.

Considered together, these factors will allow the Council to begin 2013/14 on a financially sound basis with the ability to consider options for the most appropriate use of the increased level of balances.

### **Statement of Accounts**

The Council's accounts for the year 2012/13, covering the period 1<sup>st</sup> April 2012 to 31<sup>st</sup> March 2013, are set out on the following pages. They consist of:

1. The Primary Statements, consisting of the Movement in Reserves Statement, the Comprehensive Income & Expenditure Statement, the Balance Sheet and the Cash Flow Statement. The purpose of these statements is explained in more detail in the section following this foreword.
2. Notes to the Accounts – these provide more detailed analysis and information on significant balances and movements within the statements listed above.
3. The Collection Fund - shows the transactions of the Authority in relation to Non Domestic Rates, Council Tax and residual Community Charge (or Poll Tax). It illustrates the way in which these have been distributed to Preceptors and the General Fund.

All the figures in the above sections have been rounded to the nearest £1000.

This Statement has been produced in accordance with the requirements of the Code of Practice on Local Authority Accounting for 2012/13, which now requires the Statement to comply with International Financial Reporting Standards (IFRS), as adapted for the public sector.

## APPENDIX A - Maidstone Borough Council – Statement of Accounts 2012/13

These accounts are preceded by the Annual Governance Statement and the Statement of Responsibilities.

In line with the Accounts & Audit Regulations 2011 the Statement of Accounts is now required to be signed off by the Responsible Financial Officer by 30<sup>th</sup> June, with the approval of the Audit Committee to be given by 30<sup>th</sup> September.

There were no significant changes to the accounting requirements for 2012/13.

Following the abolition by the Government of the Audit Commission the Statement for 2012/13 will be audited by Grant Thornton, who successfully tendered for the contract for external audit services.

The Council's financial year runs from 1<sup>st</sup> April to 31<sup>st</sup> March. A summary of the Balance Sheet as at 31<sup>st</sup> March 2013 is shown below:

<b>2011/12</b>		<b>2012/13</b>
<b>£000</b>		<b>£000</b>
62,298	Property, Plant & Equipment	60,816
10,279	Heritage Assets	10,334
12,469	Investment Properties	12,566
617	Other Long Term Assets	703
25,851	Money owed to the Council	28,283
(12,712)	Money owed by the Council	(13,799)
(49,455)	Long Term Liabilities	(51,250)
<b>49,347</b>	<b>Net Assets</b>	<b>47,653</b>
10,269	Usable Reserves	14,271
39,078	Unusable Reserves	33,382
<b>49,347</b>	<b>Total Reserves</b>	<b>47,653</b>

The major movements in the Balance Sheet can be summarised as follows:

- The increase in money owed to the Council is primarily money due from Central Government in respect of housing benefits.
- Long term liabilities have increased as a consequence of an increase in the pensions liability following the annual assessment of the fund by actuaries acting on behalf of Kent County Council.

### Comprehensive Income & Expenditure Statement

The Comprehensive Income & Expenditure Statement summarises the cost of all General Fund services provided by the Council. The total budget requirement was calculated to be £19.940m, which was funded as follows:

**APPENDIX A - Maidstone Borough Council – Statement of Accounts 2012/13**

	<b>£000</b>
Revenue Support Grant	454
Non-Domestic Rate Income	5,923
Council Tax Income	13,563
<b>Total</b>	<b>19,940</b>

Parish precepts are not included in the above table.

The initial net spend of £20.193m was calculated as follows:

	<b>£000</b>
Total Budget Requirement (from previous table)	19,940
General Underspend	150
Planned Contributions from Balances	100
Invest to Save	3
<b>Net Spend on General Fund Services</b>	<b>20,193</b>

The actual spend for revenue purposes was £21.832m, and there was a net increase in balances of £2.474m. The General Fund Balances at 31<sup>st</sup> March 2013 were £12.578m. A summary of the revenue spend for 2012/13 is shown below:

<b>Portfolio</b>	<b>Original</b>	<b>Revised</b>	<b>Actual</b>	<b>Variance</b>
	<b>Estimate</b>	<b>Estimate</b>		<b>to</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>Revised</b>
				<b>£000</b>
Leader of the Council	993	672	467	(205)
Community & Leisure Services	7,901	8,341	8,145	(196)
Corporate Services	915	4,456	2,679	(1,777)
Economic Development & Transport	4,652	5,250	4,912	(338)
Environment	5,731	5,823	5,629	(194)
<b>Total Service Spending</b>	<b>20,193</b>	<b>24,542</b>	<b>21,832</b>	<b>(2,710)</b>

The revised estimate figure includes resources of £3.541m carried forward from 2011/12 to 2012/13.

Significant variances within the above figures are as follows:

- Within the Leader's portfolio there is an under spend of £0.221m on the Contingency budget. Part of this under spend relates to new burden grant received from the government during the year but relating to costs that the Council will incur in 2013/14, and this has been carried forward.
- The Development Management service in the Economic Development & Transport portfolio is reporting a total under spend of £0.353m. In the middle of 2012/13 financial year the Government approved a national increase in planning fees and the service has benefited from additional income. In addition resources for potential enforcement cases are being maintained by the service.



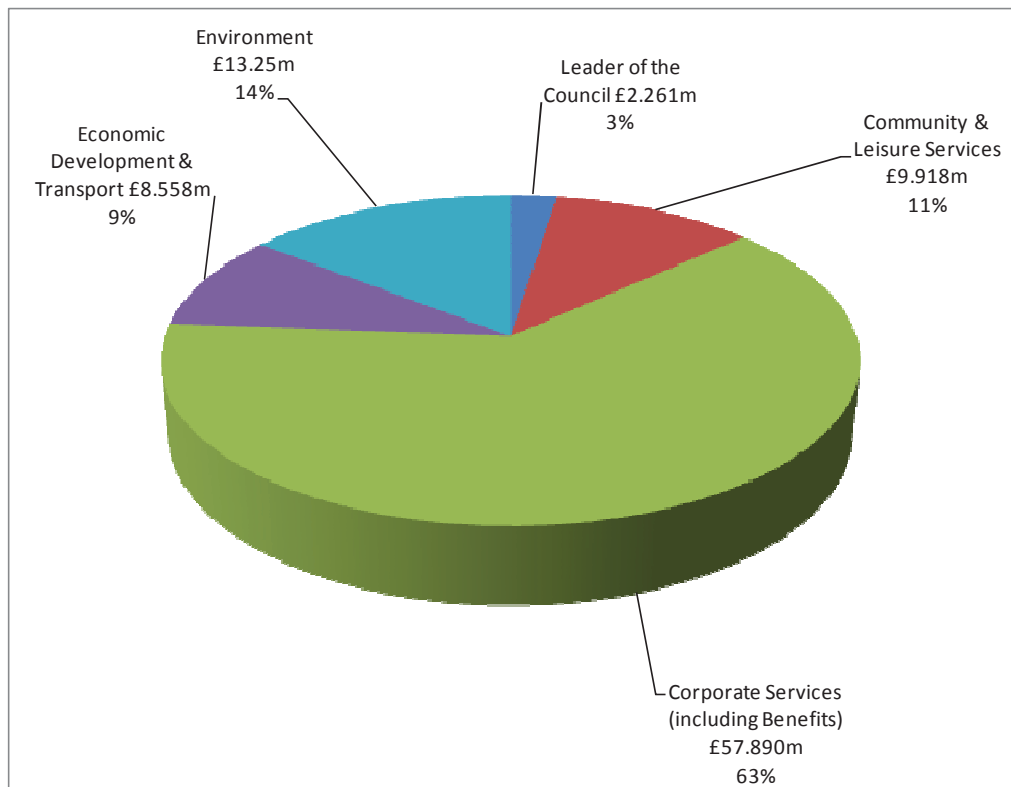
## APPENDIX A - Maidstone Borough Council – Statement of Accounts 2012/13

- Within the Community & Leisure Services portfolio the Homelessness budget is over spent by £0.178m due to demand for that service resulting in extensive use of bed and breakfast providers during the year.
- Interest and investment income within the Corporate Services portfolio is showing a positive variance of £0.141m. This is due to higher levels of invested funds creating higher levels of interest received along with the correction of a misstated value for interest receivable in prior years' accounts.

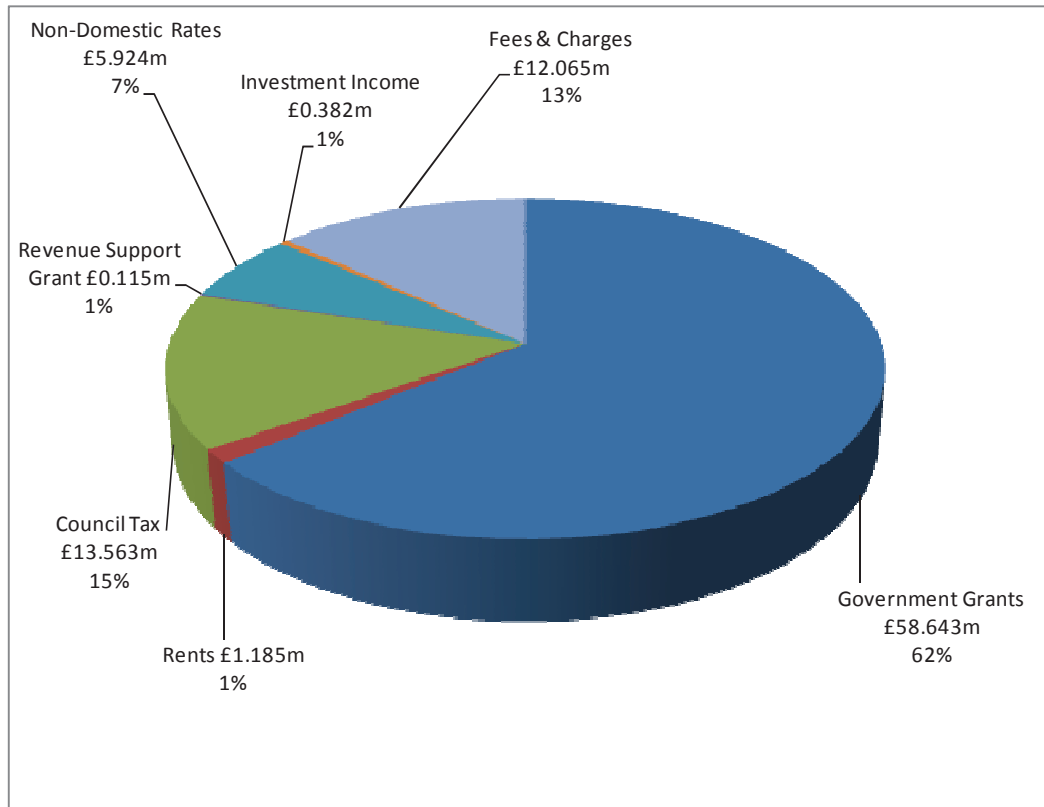
**Expenditure & Income** - The pie charts shown on the following page illustrate in broad terms where the Council's money comes from and the services that it provides.

15% of the Council's income came from the services it provided through rents, fees and charges and interest. The largest single source of income was Specific Government Grants, such as Rent Allowances, Council Tax Benefit and Housing Subsidy, which provide 63% of the total.

### Spending – Where it Went



**Income – Where it Came From**



**Capital Expenditure & Income**

The Council spent £5.008m on Capital Projects compared to an original estimate of £5.384m. As a result of unused resources carried forward to 2012/13 and other adjustments to the programme during the year the revised estimate was set at £4.757m. Significant elements of the capital spending were the Mote Park Regeneration Scheme (£0.946m), Renovation Grants (£0.860m), Support for Social Housing (£1.048m) and the High Street Regeneration Scheme (£0.808m).

A summary of capital expenditure is shown below:

	Original Estimate £000	Revised Estimate £000	Actual £000	Variance to Revised £000
Leader of the Council	0	0	0	0
Community & Leisure Services	1,610	1,465	3,720	(2,255)
Corporate Services	330	207	414	(207)
Economic Development & Transport	3,444	2,849	830	2,019
Environment	0	47	44	3
<b>Total</b>	<b>5,384</b>	<b>4,568</b>	<b>5,008</b>	<b>(440)</b>

The variance on Community & Leisure Services is due to the expenditure on the new play area at Cobtree Manor Park. However this is funded entirely by the Cobtree Manor Estate Trust therefore there is no impact on Council resources. The variance on Corporate Services is due to expenditure relating the IT shared

service arrangement with Tunbridge Wells and Swale, and they will be funding the majority of the expenditure. The variance on Economic Development & Transport was initial expenditure on phase 2 of the High Street Project, and this will be funded from resources identified in 2013/14.

Capital expenditure was funded as follows:

	<b>£000</b>
Revenue Support	0
Disposal of Assets - Current & Previous Years	2,624
Other Grants & Contributions	2,384
<b>Total</b>	<b>5,008</b>

The disposal of assets during the year realised capital receipts of £3.524m, and £0.966m of useable capital receipts have been carried forward for future use. In addition the Council has received £0.941m of funding to date from the Heritage Lottery Fund towards the Mote Park Regeneration Project. Funding of £0.296m has also been received from the Cobtree Manor Estate Trust towards the new play area at Cobtree Manor Park, and a further £0.286m was received to fund the new extension at the museum. Grants to the value of £0.558m have also been received from various sources to fund renovation grant payments.

### **Borrowing & Investments**

The Council has adopted the requirements of the CIPFA Prudential Code for Capital Finance. This has given individual authorities responsibility for deciding their own level of affordable borrowing, based on the guidelines laid out in the Code. However, there was no long-term borrowing during 2011/12, as there were sufficient resources available to fund the programme.

Investment income, which historically has been quite high, has now fallen to lower levels, with interest of £0.402m being generated in 2012/13. (The figure for 2011/12 was £0.316m). This is a reflection of the current low level of interest rates, along with the lower level of resources available for investment. The level of capital receipts has continued to fall as they are used to fund the capital programme, and the effects of the economic downturn means that the Council has had difficulty in disposing of surplus assets which would have generated significant capital receipts.

### **Collection Fund**

The Council is a Billing Authority, meaning it is responsible for collecting and paying over Council Tax contributions on behalf of Kent County Council, Kent Police Authority, Kent and Medway Towns Fire Authority, and the Parish Councils within the Borough area. The Council operates a Collection Fund into which it pays all income collected from the Council Tax and National Non-Domestic Rates. The demands on the Fund for 2012/13 totalling £90.062m were as follows:

## APPENDIX A - Maidstone Borough Council – Statement of Accounts 2012/13

Authority	£000
Maidstone Borough Council	13,562
Kent County Council	63,899
Kent Police Authority	8,457
Kent & Medway Towns Fire & Rescue Authority	4,144
<b>Total</b>	<b>90,062</b>

The Band D level of Council Tax in 2012/13 was £1,476.80, which breaks down as follows:

Authority	£.p
Maidstone Borough Council	222.39
Kent County Council	1,047.78
Kent Police Authority	138.68
Kent & Medway Towns Fire & Rescue Authority	67.95
<b>Total</b>	<b>1,476.80</b>

Individual additions to the Council Tax level were made to cover Parish Precepts in parished areas. This level of Council Tax related to a property in Band D and by the application of statutory multipliers the corresponding amount was charged to all properties in Bands A-H.

### Pensions

Note 37 to the Balance Sheet refers to the Disclosure of Net Pension Assets and Liabilities. Under the requirements of IAS 19 (International Accounting Standard) on Retirement Benefits these figures are now reflected in the Council's Balance Sheet and Comprehensive Income & Expenditure Statement. The latest actuarial valuation carried out on behalf of the Kent County Council Pension Fund shows a small movement in the liability related to the pension scheme, from £46.556m in 2011/12 to £48.986m in 2012/13.

Employers' levels of contribution are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields). The next triennial valuation takes place on 31<sup>st</sup> March 2013.

### Other Comments

No post balance sheet events were identified during the preparation of the Statement.

### Future Developments

Following the recent introduction of IFRS there are no significant changes currently proposed for local government accounting.

The ongoing economic situation will continue to have a significant effect on the financial position of the Council in 2013/14. With continuing uncertainty over

*Page 8 (Draft accounts – subject to external audit)*

new capital receipts, existing receipts will need to be used to fund the capital programme, which in turn will further reduce sums available to invest. Investment income will be a smaller source of income than in previous years due to continuing low interest rates, and there is also likely to continue to be reduced income from fees and charges.

There is also the likelihood of further pressures arising from the Government's commitment to reduce the national budget deficit. Cuts to central government funding have meant that substantial budget reductions will continue to be made over the next few years.

The Council will continue to explore ways of reducing its costs through efficiency savings, commercial initiatives, shared services and partnership working. There is now a formal arrangement with Swale and Tunbridge Wells Borough Councils in the form of the Mid-Kent Improvement Partnership (MKIP), and a number of partnership arrangements are now established covering Internal Audit, Licensing, Revenues & Benefits and Legal Services. The Council launched its first commercial venture offering a trade waste service during 2012/13, and will be looking at further initiatives

### **Authorised for Publication**

This Statement was authorised for publication on 28<sup>th</sup> June 2013, the date it was signed by the Director of Regeneration & Communities as presenting a true and fair view of the financial affairs of the Council for 2012/13.

## **EXPLANATION OF THE PURPOSE OF THE PRIMARY STATEMENTS**

### **Movement in Reserves Statement**

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus (or Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income & Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

### **Comprehensive Income & Expenditure Statement**

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

### **Balance Sheet**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

### **Cash Flow Statement**

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

## **ANNUAL GOVERNANCE STATEMENT**

To follow

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In the Council, that officer is the Director of Regeneration & Communities.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### The Director of Regeneration & Communities' Responsibilities

The Director of Regeneration & Communities is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Regeneration & Communities has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the local authority Code.

The Director of Regeneration & Communities has also:

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

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Council at the reporting date and of its expenditure and income for the year ended 31<sup>st</sup> March 2013.

**Signed:**



Zena Cooke, Director of Regeneration & Communities

**Date: 28<sup>th</sup> June 2013**



## PRIMARY STATEMENTS

### MOVEMENT IN RESERVES STATEMENT

#### For the years ended 31<sup>st</sup> March 2012 & 2013

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
<b>Balance at 31st March 2012</b>	10,104	55	110	10,269	39,078	49,347
<b>Movement in Reserves during 2012/13</b>						
Surplus or Deficit on the Provision of Services	(709)			(709)		(709)
Other Comprehensive Income or Expenditure					(985)	(985)
<b>Total Comprehensive Income or Expenditure</b>	<b>(709)</b>	<b>0</b>	<b>0</b>	<b>(709)</b>	<b>(985)</b>	<b>(1,694)</b>
Adjustments between Accounting Basis and Funding Under Regulation (Note 5)	3,184	989	539	4,711	(4,711)	0
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>	<b>3,184</b>	<b>989</b>	<b>539</b>	<b>4,711</b>	<b>(4,711)</b>	<b>0</b>
Transfers to/from Earmarked Reserves						
<b>Increase or Decrease in Year</b>	<b>2,475</b>	<b>989</b>	<b>539</b>	<b>4,002</b>	<b>(5,696)</b>	<b>(1,694)</b>
<b>Balance at 31st March 2013</b>	<b>12,579</b>	<b>1,044</b>	<b>649</b>	<b>14,271</b>	<b>33,382</b>	<b>47,653</b>

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
<b>Balance at 31st March 2011</b>	9,939	1,468	70	11,477	55,510	66,987
<b>Movement in Reserves during 2010/11</b>						
Surplus or Deficit on the Provision of Services	(2,630)			(2,630)		(2,630)
Other Comprehensive Income or Expenditure					(15,010)	(15,010)
<b>Total Comprehensive Income or Expenditure</b>	<b>(2,630)</b>			<b>(2,630)</b>	<b>(15,010)</b>	<b>(17,640)</b>
Adjustments between Accounting Basis and Funding Under Regulation (Note 5)	2,795	(1,413)	40	1,422	(1,422)	
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>	<b>2,795</b>	<b>(1,413)</b>	<b>40</b>	<b>1,422</b>	<b>(1,422)</b>	
Transfers to/from Earmarked Reserves						
<b>Increase or Decrease in Year</b>	<b>165</b>	<b>(1,413)</b>	<b>40</b>	<b>(1,208)</b>	<b>(16,432)</b>	<b>(17,640)</b>
<b>Balance at 31st March 2012</b>	<b>10,104</b>	<b>55</b>	<b>110</b>	<b>10,269</b>	<b>39,078</b>	<b>49,347</b>

## COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

For the years ended 31<sup>st</sup> March 2012 & 2013

2011/12 (Restated)				2012/13		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
23,962	(23,819)	143	Central services to the public	68,303	(67,733)	570
7,591	(2,479)	5,112	Cultural & Related Services	9,228	(3,976)	5,252
12,944	(3,635)	9,309	Environment & Regulatory Services	12,752	(5,195)	7,557
3,538	(1,183)	2,355	Planning Services	5,059	(1,830)	3,229
2,934	(3,246)	(312)	Highways and transport services	5,208	(5,651)	(443)
46,576	(42,644)	3,932	Other housing services	5,126	(1,906)	3,220
2,281	(34)	2,247	Corporate and democratic core	2,306	(168)	2,138
123		123	Non distributed costs	1,690	(4)	1,686
<b>99,949</b>	<b>(77,040)</b>	<b>22,909</b>	<b>Cost Of Services</b>	<b>109,672</b>	<b>(86,463)</b>	<b>23,209</b>
1,166	(621)	545	Other Operating Expenditure (Note 7)			731
3,077	(316)	2,761	Financing and Investment Income and Expenditure (Note 8)			814
	(23,585)	(23,585)	Taxation and Non-Specific Grant Income (Note 9)		(24,045)	(24,045)
		<b>2,630</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>709</b>
		(1,592)	Surplus or deficit on revaluation of non current assets			(503)
		16,602	Actuarial gains / losses on pension assets / liabilities - Matching the entry to the pensions reserve			1,488
		<b>15,010</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>985</b>
		<b>17,640</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>1,694</b>

There were no items of a material nature that required a separate disclosure within Net Cost of Services.

2011/12 has been restated to reflect the inclusion of the Upper Medway Internal Drainage Board Levy in Other Operating Expenditure.

## BALANCE SHEET

As at 31<sup>st</sup> March 2012 & 2013

31st March 2012 £000		Notes	31st March 2013 £000
62,298	Property, Plant & Equipment	17	60,816
12,469	Investment Property	18	12,566
10,279	Heritage Assets	19	10,334
572	Intangible Assets	21	663
11	Long Term Investments	22	11
34	Long Term Debtors	26	30
<b>85,663</b>	<b>Long Term Assets</b>		<b>84,420</b>
7,000	Short Term Investments	22	7,000
3,475	Assets Held for Sale	24	550
104	Inventories	25	107
8,475	Short Term Debtors	26	14,096
6,797	Cash & Cash Equivalents	27	6,529
<b>25,851</b>	<b>Current Assets</b>		<b>28,282</b>
0	Cash & Cash Equivalents	27	77
7,239	Short Term Creditors	28	8,357
2,880	Provision for Bad Debts	29	3,052
994	Deferred Liability	32/33	729
1,599	Capital Grants Receipts in Advance	30	1,584
<b>12,712</b>	<b>Current Liabilities</b>		<b>13,799</b>
83	Provisions	35	140
2,806	Deferred Liability	32/33	2,124
46,566	Other Long Term Liabilities	37	48,986
<b>49,455</b>	<b>Long Term Liabilities</b>		<b>51,250</b>
<b>49,347</b>	<b>Net Assets</b>		<b>47,653</b>
10,269	Usable Reserves	34	14,271
39,078	Unusable Reserves	35	33,382
<b>49,347</b>	<b>Total Reserves</b>		<b>47,653</b>

## CASHFLOW STATEMENT

2011/12 £000	Notes	2012/13 £000
2,630	Net (surplus) or deficit on the provision of services	709
(250)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(1,550)
1,400	Adjustments for items included in the net surplus or deficit on the provision of services that are investing & financing activities	6,547
<u>3,780</u>	<b>Net cash flows from Operating activities</b>	<u>5,706</u>
(2,368)	Investing Activities	(4,838)
66	Financing Activities	(524)
<u>1,478</u>	<b>Net increase or decrease in cash &amp; cash equivalents</b>	<u>344</u>
(8,275)	Cash & cash equivalents at the beginning of the reporting period	(6,797)
<u>(6,797)</u>	<b>Cash &amp; cash equivalents at the end of the reporting period</b>	<u>(6,452)</u>

## NOTES TO THE ACCOUNTS

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### 1 - ACCOUNTING POLICIES

#### a) GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31<sup>st</sup> March 2013. The Authority is required to prepare an annual Statement of Accounts by the Accounts & Audit Regulations 2011 which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the UK 2012/13 and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under the 2011 Act.

The financial information contained in the accounts has the following qualitative characteristics, as laid out in the Code of Practice on Local Authority Accounting:

- Relevance
- Reliability
- Comparability
- Understandability

In addition, the following accounting concepts have been given precedence in the preparation of the accounts:

- Going concern
- Primary legislative requirements

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

#### b) ACCRUALS OF INCOME & EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **c) CASH & CASH EQUIVALENTS**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

### **d) EXCEPTIONAL ITEMS**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income & Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

### **e) PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES & ERRORS**

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it

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is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

#### **f) CHARGES TO REVENUE FOR NON-CURRENT ASSETS**

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

- Depreciation attributable to the assets used by the relevant service
- Revaluation & impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation.

#### **g) EMPLOYEE BENEFITS**

##### **Benefits Payable During Employment**

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

##### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income & Expenditure Statement when the Council is demonstrably committed to the termination of an officer or a group of officers or making an offer or making an offer to encourage voluntary redundancy.

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

### **Post Employee Benefits**

Employees of the Council are members of the Local Government Pensions Scheme, administered by Kent County Council (KCC). The Scheme is accounted for as a defined benefits scheme:

- The liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate specified by the actuaries (based on the indicative rate of return on high quality corporate bonds.)
- The assets of the KCC pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value
- The change in net pensions liability is analysed into seven components:
  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Income & Expenditure Account to the revenue accounts of services for which the employees worked.
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income & Expenditure Account as part of Non Distributed Costs.
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income & Expenditure Account.



- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income & Expenditure Account.
- Gains/losses on settlements & curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Net Cost of Services in the Income & Expenditure Account as part of Non Distributed Costs.
- Actuarial gains & losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains & Losses.
- Contributions paid to KCC pension fund – cash paid as employers' contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

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

### **h) EVENTS AFTER THE BALANCE SHEET DATE**

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

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

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

### **i) FINANCIAL INSTRUMENTS**

Financial Liabilities:

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Interest is charged to the Financing and Investment Income & Expenditure line in the Comprehensive Income & Expenditure Account.

Financial Assets:

Financial assets are classified into two types:

- Loans & Receivables – assets that have fixed or determinable payments but are not quoted on an open market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans & Receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing & Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income & Expenditure Statement is the amount receivable for the year in the loan agreement.

### **j) GOVERNMENT GRANTS & CONTRIBUTIONS**

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

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

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

specified, or future economic benefits or service potential must be returned to the transferor.

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

Where capital grants are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## **k) HERITAGE ASSETS**

### **Tangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)**

The Council's Heritage Assets fall into the following main categories:

- Museum Exhibits
- War Memorials
- Statues, Sculptures and other works of art
- Listed Buildings

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets, and the valuation methods applied are as follows:

- Replacement Cost
- Purchase Cost
- Insurance Valuation

Where it is considered impractical (in terms of cost and/or benefit) to obtain a valuation there is no requirement to do so, but any assets that are treated in this way must be disclosed in the Heritage Assets note.

The carrying amount of Heritage Assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

## **I) INTANGIBLE ASSETS**

Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the Council (i.e. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income & Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income & Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## **m) INVENTORIES & LONG-TERM CONTRACTS**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the First-In First-Out costing formula.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works received under the contract during the financial year.

## **n) INVESTMENT PROPERTIES**

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Financing and Investment Income &

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Expenditure line in the Comprehensive Income & Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

## **o) LEASES**

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

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

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

### **The Council as Lessee**

Finance Leases:

Property, Plant & Equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

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

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

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

Operating Leases:

Rentals paid under operating leases are charged to the Comprehensive Income & Expenditure Statement as an expense of the service benefiting from the use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of the payments.

### **The Council as Lessor**

Finance Leases:

The Council has no leases classified as finance leases.

Operating Leases:

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

### **p) OVERHEADS & SUPPORT SERVICES**

The costs of support services and overheads are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion with the benefits used, with the exception of:

- Corporate & Democratic Core – costs relating to the Council’s status as a multi-functional democratic organisation.
- Non-distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in the Service Expenditure Reporting Code of Practice 2012/13 and accounted for as separate headings in the

Comprehensive Income & Expenditure Statement, as part of Net Expenditure on Continuing Services.

## **q) PROPERTY, PLANT & EQUIPMENT**

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

### **Recognition**

All expenditure on the acquisition, creation or enhancement of Property, Plant & Equipment is capitalised on an accruals basis in the accounts. Expenditure on fixed assets is capitalised, provided that the asset value is over £10,000 and yields benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged direct to service revenue accounts.

### **Measurement**

Assets are initially measured at cost, comprising:

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

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

- Infrastructure, Community Assets and Assets Under Construction - Depreciated Historical Cost
- All other Assets – Fair Value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV)

Where there is no market-based evidence of Fair Value because of the specialist nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of Fair Value.

Where non-property assets that have short useful lives or low values (or both), Depreciated Historical Cost basis is used as a proxy for Fair Value.

Assets included in the Balance Sheet at Fair Value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their Fair Value at the year-end, but as a minimum every 5 years. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income & Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for by:



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

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

### **Component Accounting**

International Accounting Standard 16 (IAS16) – Property, Plant and Equipment (PPE) contains the accounting requirements for the separate recognition, depreciation and derecognition of parts of assets (referred to as componentisation). Componentisation shall be applied for depreciation purposes on enhancement, acquisition expenditure incurred and revaluations carried out from 1st April 2010.

Components that are required to be depreciated separately are those that have a cost that is significant in relation to the total cost of the asset, a different useful life and method of depreciation.

The policy adopted is as follows:

- Components of an asset will be separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset for depreciation purposes.
- Where there is more than one significant component part of the same asset with the same useful life, such component parts will be group together for deprecation purposes.
- A component may be an individual item or similar items with similar useful lives grouped.
- Where a component is replaced or restored, the carrying amount of the old component will be derecognised and the new component added. Where the carrying value of the derecognised/replaced component is not known a best estimate will be determined by reference to the current cost.
- Only assets with a gross book value of £1.5 million and over will be considered for componentisation.
- Of those assets, for the purpose of determining a 'significant' component of an asset, components with a value of 25% in relation to the overall value of the asset or over £500,000 will be considered and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised.



- On componentisation any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

### **Impairment**

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

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

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

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

### **Depreciation**

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

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the useful life of the property as estimated by a suitably qualified officer.
- Vehicles, Plant, Furniture & Equipment – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.
- Infrastructure - straight-line allocation over 20 years.

Where an item of Property, Plant & Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. This is a straight-line allocation over the useful life of the component as estimated by a suitably qualified officer.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and depreciation that

would have been charged based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **Disposals & Non-current Assets Held for Sale**

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

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. These are credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

**r) DEFERRED LIABILITIES**

Deferred Liabilities are recognised under the terms of IFRIC 12 (IFRS Interpretations Committee) and the arrangement is recognised as a service concession, and accounted for accordingly. This generally involves the grantor (the Council) conveying to the operator (Serco) for the period of the concession the right to provide services that give the public access to major economic and social facilities, in this instance Maidstone Leisure Centre.

**s) CONTINGENT LIABILITIES/ASSETS**

Contingent liabilities and assets are recognised in the notes to the Balance Sheet. The contingent liability is not recognised within the accounts as the date of the possible transaction concerned is not sufficiently certain at this stage. The contingent asset is not accrued in conformity with the concept of prudence.

**t) RESERVES**

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

Certain reserves are kept to manage the accounting process for non-current assets, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant properties.

**u) REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of Council Tax.

**v) VALUE ADDED TAX**

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

**w) REDEMPTION OF DEBT**

The policy regarding debt redemption is only to redeem debt when, taking into account all circumstances regarding current and potential future borrowing controls, and Housing Subsidy, it is economic and viable to do so. As the Council is currently debt-free, the policy is to use current and future capital receipts in a

prudent manner, and it is not planned to borrow over the period of the Financial Plan.

### **x) DEBTORS AND CREDITORS**

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

An exception to this principle relates to electricity and similar quarterly payments which are charged at the date of the meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

Internal Debtors are netted against internal Creditors on consolidation.

### **y) COLLECTION FUND ACCOUNTING**

Following detailed consideration of the role performed by Councils such as Maidstone BC in collecting Council Tax, CIPFA have determined that these councils known as 'billing authorities' act as 'agents' collecting council tax on behalf of the major preceptors and business rates on behalf of the Government. This means changes have been made to the accounts as follows:

#### **Council Tax**

The proportion of council tax arrears and prepayments, the collection fund balance and allowance for doubtful debts at the year end relating to the Maidstone BC demand on the Collection Fund are all that is now shown on the Balance Sheet. For this reason the balances as at 31st March 2009 were restated and allocated between the Council and its major preceptors as shown in the note to the accounts on prior period adjustments. Adjusting entries have been made to a new account called the Collection Fund Adjustment account.

The Collection Fund adjustment account will continue to be used in future years to hold the adjustments relating to the balances in respect of Kent County Council, Kent Police and Kent & Medway Towns Fire Authority to prevent this change in policy having an impact on the Income and Expenditure of Maidstone BC and the council tax payers. Equal and opposite adjustments will also be made in the accounts of the organisations stated above.

#### **Business Rates (NNDR)**

Business Rates will continue to be collected by Maidstone BC as billing authority and paid over to the Government 'NNDR pool'. However, arrears, prepayments and provisions for doubtful debts in respect of business rates will not now be shown separately on the Balance Sheet. These will be consolidated into one entry with the amount payable to or from the NNDR pool and will be shown as a net debtor or creditor as appropriate. Again a prior period adjustment as at 31st March 2009 was made to ensure that the comparative figures are prepared on

the same basis and details are shown in the note to the accounts on prior period adjustments.

**z) MINIMUM REVENUE PROVISION**

The Minimum Revenue Provision (MRP) is a statutory charge relating to the repayment of debt. It represents the Council's underlying need to borrow for capital expenditure. There is a general duty upon the Council to make an amount of MRP which it considers 'prudent'.

The Council has no borrowing, but has identified that it has three contractual arrangements that are classified as finance leases under the requirements of IFRIC 4. The repayments under these leases therefore need to be treated as a borrowing arrangement. The MRP amount that is set aside is equivalent to the value of the annual principal repayments on the contracts .

## **2 - CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in Note 2, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- A comprehensive review of all property leases has been undertaken to determine whether they should be classified as an operating lease (which are off-Balance Sheet), or a finance lease (which is on-Balance Sheet). The result of this review was that the Council currently has no property leases which need to be classified as finance leases.
- A further review of service contracts was also undertaken in accordance with the requirements of IFRIC 4 to determine whether any of the contractual arrangements contain the substance of a finance lease. It was determined that the refuse collection and park & ride contracts were classified as containing finance leases for the vehicles involved in the delivery of the service, and these have now been included with Property, Plant & Equipment on the Balance Sheet.
- It has been determined that an arrangement between the Council and the managing contractor of the Leisure Centre is classified as a service concession arrangement. Under the terms of the arrangement the Council makes regular payments over a 15 year period to cover the costs of major refurbishment works which have been undertaken by the contractor.
- A review of the Council's property portfolio has been undertaken to determine which assets should be classified as Investment Properties. These are those assets held solely to generate rental income or which are held for capital appreciation. A number of assets were classified under this heading, which is shown on the face of the Balance Sheet.
- A review was undertaken to identify what assets the Council owns could potentially be classified as Heritage Assets. Once a list had been established it was determined which of these met the criteria to be classified as a Heritage Asset, and a further judgement was required to determine the appropriate basis for valuation, or whether details of the asset should be disclosed in the note only.

### **3 - ASSUMPTIONS MADE ABOUT THE FUTURE & OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31<sup>st</sup> March 2013 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

#### **Property, Plant & Equipment**

Uncertainties:

Assets are depreciated over useful lives that are dependent upon assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to the assets.

Effect if actual results differ from assumptions:

If the useful life of assets is reduced depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £20,000 for every year that useful lives had to be reduced.

#### **Pensions Liability**

Uncertainties:

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Barnett Waddingham) is engaged to provide the Council with expert advice about the assumptions to be applied.

Effect if actual results differ from assumptions:

The effect on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £12.605m. However, the assumptions interact in complex ways. A one year decrease in the mortality age rating assumption would result in an increase to the pension liability of £4.786m.

## **Arrears**

### Uncertainties:

At 31<sup>st</sup> March 2013 the Council had a balance of sundry debtors for £14.096m. A review of significant balances suggested that a provision of doubtful debts for £2.632m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.

### Effect if actual results differ from assumptions:

If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £1.3m to set aside as an allowance.

## **Financial Instruments**

### Uncertainties:

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure.

### Effect if actual results differ from assumptions:

Current income for the year on the Council's investments was £0.316m. If interest rates had been 1% higher then the interest receivable upon its variable rate investments would have been £140,000 more. If the rates were 1% less this would be reversed.



#### **4 - ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

International Accounting Standard 8 requires the Council to disclose the expected impact of new standards that have been issued, but not yet adopted.

The only standard that is likely to apply to the Council is as follows:

- IAS 19 – Employee Benefits: These are disclosures, relating to the Council’s specific circumstances, explaining that there are new classes of components of defined benefit cost to be recognised in the financial statements.

#### **5 - ADJUSTMENTS BETWEEN ACCOUNTING BASIS & FUNDING BASIS UNDER REGULATIONS**

This note details the adjustments that are made to total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

**APPENDIX A - Maidstone Borough Council – Statement of Accounts 2012/13**

2011/12				2012/13			
General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments primarily involving the Capital Adjustment Account</b>							
<b>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement:</b>							
2,483			<b>2,483</b>				<b>2,588</b>
296			<b>296</b>				<b>17</b>
550			<b>550</b>				<b>0</b>
2,030			<b>2,030</b>				<b>(98)</b>
183			<b>183</b>				<b>251</b>
(2,592)			<b>(2,592)</b>				<b>(2,384)</b>
4,087			<b>4,087</b>				<b>3,328</b>
							<b>277</b>
							<b>194</b>
			<b>0</b>				<b>(3,415)</b>
<b>Insertion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement</b>							
(935)			<b>(935)</b>				<b>(948)</b>
(2,559)			<b>(2,559)</b>				<b>0</b>
<b>Adjustments primarily involving the Capital Grants Unapplied Account</b>							
(40)		40	<b>0</b>			539	<b>0</b>
			<b>0</b>				<b>0</b>
<b>Adjustments primarily involving the Capital Receipts Reserve</b>							
(359)	1,121		<b>762</b>				<b>6,538</b>
	(2,500)		<b>(2,500)</b>				<b>(2,624)</b>
22	(22)		<b>0</b>				<b>0</b>
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve</b>							
			<b>0</b>				<b>0</b>
<b>Adjustments primarily involving the Pensions Reserve</b>							
2,296			<b>2,296</b>				<b>3,688</b>
(2,674)			<b>(2,674)</b>				<b>(2,756)</b>
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>							
			<b>0</b>				<b>0</b>
<b>Adjustments primarily involving the Accumulated Absences Account</b>							
(5)			<b>(5)</b>				<b>56</b>
<b>2,783</b>	<b>(1,401)</b>	<b>40</b>	<b>1,422</b>	<b>3,184</b>	<b>989</b>	<b>539</b>	<b>4,711</b>

## 6 - MATERIAL ITEMS OF INCOME & EXPENSE

Within the Comprehensive Income & Expenditure Statement are the following material items:

### Income:

- Recognition of capital grants received - £2.384m \*

### Expense

- Revenue Expenditure Funded by Capital Under Statute (Renovation Grants) - £2.280m \*
- Revenue Expenditure Funded by Capital Under Statute (Social Housing Grants) - £1.048m \*

\* These entries are required under the IFRS Code of Practice to be charged to revenue in the first instance. However, they are subsequently reversed out through the Movement in Reserves Statement to ensure that they do not impact upon the bottom line of the General Fund.

## 7 - OTHER OPERATING EXPENDITURE

These are corporate items of income and expenditure that cannot reasonably be allocated or apportioned to services.

	<b>2012/13 (Restated)</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Parish Council precepts	1,116	1,044
Levies	105	110
Payments to the Government Housing Capital Receipts Pool	0	12
Miscellaneous Income	0	(42)
Gains/losses on the disposal of non-current assets	(490)	(579)
	<b>731</b>	<b>545</b>

The only levy due is to the Upper Medway Internal Drainage Board. This is not a new payment, but has previously been included in Net Cost of Services within the Comprehensive Income & Expenditure Statement. The 2011/12 figures have been restated to reflect the correct classification.

## 8 - FINANCING AND INVESTMENT INCOME & EXPENDITURE

These are corporate items of income and expenditure arising from the Council's involvement in financial instruments and similar transactions involving interest or the unwinding of discounts.

	2012/13 £000	2011/12 £000
Interest payable and similar charges	384	414
Pensions interest cost & expected return on pensions assets	1,289	697
Interest receivable and similar income	(402)	(316)
Income & Expenditure in relation to investment properties and changes in their fair value	(457)	1,966
	<b>814</b>	<b>2,761</b>

## 9 - TAXATION & NON-SPECIFIC GRANT INCOMES

This note consolidates all the grants and contributions receivable that cannot be identified to particular service expenditure. However, all capital grants and contributions are shown in this note, whether they are service specific or not.

	2012/13 £000	2011/12 £000
Council tax income	14,746	14,470
Government Grants	6,377	4,951
Non-ringfenced government grants	0	1,531
Capital grants & contributions	2,923	2,633
	<b>24,045</b>	<b>23,585</b>

## 10 - AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income & Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across Cabinet Member portfolios.

The income and expenditure of the individual Member portfolios recorded in budget reports is as follows:

**APPENDIX A - Maidstone Borough Council – Statement of Accounts 2012/13**

<b>Portfolio Holder Income &amp; Expenditure 2012/13</b>	<b>Leader of the Council £000</b>	<b>Community &amp; Leisure £000</b>	<b>Corporate Services £000</b>	<b>Economic Development &amp; Transport £000</b>	<b>Environment £000</b>	<b>Total £000</b>
Fees, charges & other service income	(83)	(1,262)	(1,676)	(3,646)	(5,787)	<b>(12,454)</b>
Government Grants	(1,710)	(447)	(56,138)	0	(9)	<b>(58,304)</b>
<b>Total income</b>	<b>(1,793)</b>	<b>(1,709)</b>	<b>(57,814)</b>	<b>(3,646)</b>	<b>(5,796)</b>	<b>(70,758)</b>
Employee expenses	794	1,584	7,496	2,053	3,841	<b>15,768</b>
Other service expenses	753	7,923	61,638	5,177	9,568	<b>85,059</b>
Support service recharges	713	346	(7,263)	1,329	(1,985)	<b>(6,860)</b>
<b>Total expenditure</b>	<b>2,261</b>	<b>9,854</b>	<b>61,871</b>	<b>8,558</b>	<b>11,424</b>	<b>93,967</b>
<b>Net Expenditure</b>	<b>468</b>	<b>8,144</b>	<b>4,057</b>	<b>4,912</b>	<b>5,628</b>	<b>23,209</b>

<b>Portfolio Holder Income &amp; Expenditure 2011/12 comparative figures (Restated)</b>	<b>Leader of the Council £000</b>	<b>Community &amp; Leisure £000</b>	<b>Corporate Services £000</b>	<b>Economic Development &amp; Transport £000</b>	<b>Environment £000</b>	<b>Total £000</b>
Fees, charges & other service income	(804)	(862)	(1,305)	(4,238)	(5,206)	<b>(12,415)</b>
Government Grants	(1,076)	(75)	(53,162)	(34)	(47)	<b>(54,394)</b>
<b>Total income</b>	<b>(1,880)</b>	<b>(937)</b>	<b>(54,467)</b>	<b>(4,272)</b>	<b>(5,253)</b>	<b>(66,809)</b>
Employee expenses	1,047	1,835	6,341	2,300	3,963	<b>15,486</b>
Other service expenses	854	3,114	58,901	10,663	10,749	<b>84,281</b>
Support service recharges	572	8	(8,073)	1,270	(3,826)	<b>(10,049)</b>
<b>Total expenditure</b>	<b>2,473</b>	<b>4,957</b>	<b>57,169</b>	<b>14,233</b>	<b>10,886</b>	<b>89,718</b>
<b>Net Expenditure</b>	<b>593</b>	<b>4,020</b>	<b>2,702</b>	<b>9,961</b>	<b>5,633</b>	<b>22,909</b>

**Reconciliation of Portfolio Holder Income & Expenditure to Cost of Services in the Comprehensive Income & Expenditure Statement**

This reconciliation shows how the figures in the analysis of portfolio holder income and expenditure relate to the amounts included in the Comprehensive Income & Expenditure Statement.

	<b>2012/13 £000</b>	<b>2011/12 £000</b>
Net Expenditure in Portfolio Analysis	23,209	22,909
Amounts reported below the line on the Net Cost of Services	0	0
<b>Cost of services in Comprehensive Income &amp; Expenditure Statement</b>	<b>23,209</b>	<b>22,909</b>

**Reconciliation to Subjective Analysis**

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**APPENDIX A - Maidstone Borough Council – Statement of Accounts 2012/13**

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

<b>2012/13</b>	<b>Portfolio holder analysis £000</b>	<b>Below the line on Net Cost of Services £000</b>	<b>Net Cost of Services £000</b>	<b>Corporate Amounts £000</b>	<b>Total £000</b>
Fees, charges & other service income	(12,454)		(12,455)		(12,455)
Interest & investment income			0	(402)	(402)
Income from council tax			0	(14,743)	(14,743)
Government grants and contributions	(58,304)		(58,304)	(9,301)	(67,605)
<b>Total Income</b>	<b>(70,757)</b>	<b>0</b>	<b>(70,758)</b>	<b>(24,445)</b>	<b>(95,204)</b>
Employee expenses	15,768		15,768	1,289	17,057
Other service expenses	85,059		85,059	(457)	84,602
Support Service recharges	(6,860)		(6,860)		(6,860)
Depreciation, amortisation and impairment			0		0
Interest Payments			0	384	384
Precepts & Levies			0	1,220	1,220
Payments to Housing Capital Receipts Pool			0		0
Gain or Loss on Disposal of Fixed Assets			0	(490)	(490)
<b>Total Expenditure</b>	<b>93,967</b>	<b>0</b>	<b>93,967</b>	<b>1,946</b>	<b>95,913</b>
<b>Surplus or deficit on the provision of services</b>	<b>23,210</b>	<b>0</b>	<b>23,209</b>	<b>(22,500)</b>	<b>709</b>

<b>2011/12 comparative figures (Restated)</b>	<b>Portfolio holder analysis £000</b>	<b>Below the line on Net Cost of Services £000</b>	<b>Net Cost of Services £000</b>	<b>Corporate Amounts £000</b>	<b>Total £000</b>
Fees, charges & other service income	(12,415)		(12,415)		(12,415)
Interest & investment income			0	(316)	(316)
Income from council tax			0	(14,470)	(14,470)
Government grants and contributions	(54,394)		(54,394)	(9,115)	(63,509)
<b>Total Income</b>	<b>(66,809)</b>	<b>0</b>	<b>(66,809)</b>	<b>(23,901)</b>	<b>(90,710)</b>
Employee expenses	15,486		15,486	697	16,183
Other service expenses	84,281		84,281	1,924	86,205
Support Service recharges	(10,049)		(10,049)		(10,049)
Depreciation, amortisation and impairment			0		0
Interest Payments			0	414	414
Precepts & Levies			0	1,154	1,154
Payments to Housing Capital Receipts Pool			0	12	12
Gain or Loss on Disposal of Fixed Assets			0	(579)	(579)
<b>Total Expenditure</b>	<b>89,718</b>	<b>0</b>	<b>89,718</b>	<b>3,622</b>	<b>93,340</b>
<b>Surplus or deficit on the provision of services</b>	<b>22,909</b>	<b>0</b>	<b>22,909</b>	<b>(20,279)</b>	<b>2,630</b>

2011/12 has been restated to reflect the inclusion of the Upper Medway Internal Drainage Board Levy in Other Operating Expenditure.

## 11 - TRADING OPERATIONS

The Council has established 8 trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of those units are as follows:

Operation		2012/13 £000	£000	2011/12 £000	£000
<b>Market</b>	Turnover	323		649	
	Expenditure	383		520	
	Surplus/(Deficit)		<b>(60)</b>		<b>129</b>
<b>Parkwood Industrial Estate</b>	Turnover	392		363	
	Expenditure	28		36	
	Surplus/(Deficit)		<b>364</b>		<b>327</b>
<b>Pay &amp; Display Car Parking</b>	Turnover	1,539		1,649	
	Expenditure	606		798	
	Surplus/(Deficit)		<b>933</b>		<b>851</b>
<b>On-street Car Parking</b>	Turnover	703		598	
	Expenditure	512		558	
	Surplus/(Deficit)		<b>191</b>		<b>40</b>
<b>Consolidated result of remaining trading units</b>	Turnover	1,732		3,287	
	Expenditure	1,732		3,287	
	Surplus/(Deficit)		<b>0</b>		<b>0</b>
<b>Net surplus/(Deficit) on trading operations</b>			<b>1,428</b>		<b>1,346</b>

## 12 - MEMBERS' ALLOWANCES

The total sum of Members Allowances paid during 2012/13 totalled £384,617. (£375,922 in 2011/12).

The Council also produce a statement, in accordance with provision 1021 – 15(3) of the Local Authorities (Members Allowance) (England) Regulations 2003, giving details of allowances paid to Members for the year. This can be viewed on the Council's website:

<http://www.maidstone.gov.uk/council/councillors/councillor-allowances>

### 13 - OFFICERS' REMUNERATION

The remuneration paid to the Council's senior employees is as follows:

2012/13	Salary (including Fees & Allowances) £000	Benefits in Kind (e.g.Car Allowance) £000	Total Remuneration excluding Pension Contributions £000	Pension Contributions £000	Total Remuneration including Pension Contributions £000
Chief Executive	111	13	124	15	139
Director of Change, Planning & the Environment	96	4	100	13	113
Director of Regeneration & Communities	96	4	100	13	113
Head of Legal Services	66	4	70	9	79

2011/12	Salary (including Fees & Allowances) £000	Benefits in Kind (e.g.Car Allowance) £000	Total Remuneration excluding Pension Contributions £000	Pension Contributions £000	Total Remuneration including Pension Contributions £000
Chief Executive	106	16	122	14	136
Director of Change, Planning & the Environment	94	5	99	13	112
Director of Regeneration & Communities	94	4	98	13	111
Head of Legal Services	66	4	70	9	79

Senior Officers are defined as those who sit on the Corporate Leadership Team.

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



Remuneration Band	2012/13 No.of employees	2011/12 No.of employees
£50,000 - £54,999	4	5
£55,000 - £59,999	2	4
£60,000 - £64,999	5	2
£65,000 - £69,999	4	3
£70,000 - £74,999	1	0
£75,000 - £79,999	1	2
£80,000 - £84,999	1	0
£85,000 - £89,999	0	1
£90,000 - £94,999	1	0

### Exit Packages

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

Exit Package Cost Band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13 £000	2011/12 £000
£0 - £20,000	0	0	9	28	9	28	42	205
£20,001 - £40,000	0	0	0	2	0	2	0	52
£40,001 - £60,000	0	0	0	2	0	2	0	106
£60,001 - £80,000	0	0	0	1	0	1	0	64
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	1	0	1	0	104
<b>Total</b>	<b>0</b>	<b>0</b>	<b>9</b>	<b>34</b>	<b>9</b>	<b>34</b>	<b>42</b>	<b>532</b>

### 14 - EXTERNAL AUDIT COSTS

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

	2012/13 £000	2011/12 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	83	111
Fees payable for the certification of grant claims and returns during the year	21	29
Fees payable in respect of other services provided during the year	0	0
<b>Total</b>	<b>104</b>	<b>140</b>

## 15 - GRANT INCOME

The Council has credited the following grants, contributions and donations to the Comprehensive Income & Expenditure Statement in 2012/13:

<b>Credited to Taxation &amp; Non Specific Grant Income</b>	<b>2012/13 £000</b>	<b>2011/12 £000</b>
Council tax income	14,746	14,470
Government Grants	6,377	4,951
Non-ringfenced government grants	0	1,531
Capital grants & contributions	2,923	2,633
<b>Total</b>	<b>24,045</b>	<b>23,585</b>
<b>Credited to Services</b>		
Housing Benefit Subsidy	44,573	41,610
Council Tax Benefits	10,727	10,829
Non-Domestic Rates - Cost of Collection	207	205
Housing & Planning Delivery Grant	0	1,038
Homelessness Prevention	182	0
Mortgage Rescue Programme	173	0
New Homes Bonus	1,730	0
Other Grants	713	530
<b>Total</b>	<b>58,305</b>	<b>54,212</b>

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	<b>31st March 2013 £000</b>	<b>31st March 2012 £000</b>
<b>Capital Grants Receipts in Advance</b>		
Section 106 Contributions	1,531	1,545
Other Contributions	53	54
<b>Total</b>	<b>1,584</b>	<b>1,599</b>

## **16 - RELATED PARTIES**

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

### **Central Government**

Central government has effective control over the general operations of the Council- it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 10 on reporting for resources allocation decisions.

### **Members and Senior Officers**

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' Allowances paid in 2012/13 is shown in Note 12.

All Members and Senior Officers were required to complete a declaration of interests that included details of any finance-related transactions with the Council. Two Members made declarations of significance - one is a shareholder of a pest control company that had transactions to the value of £8,851 with the Council, and another is the Managing Director of a stonemasons company that had transactions to the value of £20,412 with the Council.

17 - PROPERTY, PLANT & EQUIPMENT

Movements on Balances

<b>Movements in 2012/13</b>	<b>Infrastructure Assets £000</b>	<b>Land &amp; Buildings £000</b>	<b>Plant, Machinery &amp; Equipment £000</b>	<b>Vehicles £000</b>	<b>IT &amp; Office Equipment £000</b>	<b>Community Assets £000</b>	<b>Assets Under Construction £000</b>	<b>Total Property, Plant &amp; Equipment £000</b>
<b>Cost or Valuations</b>								
At 1st April 2012	5,868	47,005	10,181	4,039	4,337	2,110	30	<b>73,570</b>
Additions	65	264	51	0	(12)	946	28	<b>1,342</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	637	0	0	0	0	0	<b>637</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services		(46)				0		<b>(46)</b>
Assets Reclassified		(140)	0			140		<b>0</b>
Other movements in cost or valuation	0	(938)	(38)	0	25	(98)	(55)	<b>(1,104)</b>
At 31st March 2013	<b>5,933</b>	<b>46,782</b>	<b>10,194</b>	<b>4,039</b>	<b>4,350</b>	<b>3,098</b>	<b>3</b>	<b>74,399</b>
<b>Accumulated Depreciation &amp; Impairment</b>								
At 1st April 2012	(3,144)	(1,724)	(2,027)	(3,047)	(1,526)	0	0	<b>(11,468)</b>
Depreciation charge	(282)	(886)	(541)	(597)	(282)	0	0	<b>(2,588)</b>
Depreciation written out to the Revaluation Reserve		444						<b>444</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services		29						<b>29</b>
At 31st March 2013	<b>(3,426)</b>	<b>(2,137)</b>	<b>(2,568)</b>	<b>(3,644)</b>	<b>(1,808)</b>	<b>0</b>	<b>0</b>	<b>(13,583)</b>
<b>Net Book Value</b>								
<b>At 31st March 2013</b>	<b>2,507</b>	<b>44,645</b>	<b>7,626</b>	<b>395</b>	<b>2,542</b>	<b>3,098</b>	<b>3</b>	<b>60,816</b>
At 31st March 2012	2,723	45,282	8,155	990	2,812	2,111	30	<b>62,103</b>

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<b>Comparative Movements in 2011/12 (Restated)</b>	<b>Infrastructure Assets £000</b>	<b>Land &amp; Buildings £000</b>	<b>Plant, Machinery &amp; Equipment £000</b>	<b>Vehicles £000</b>	<b>IT &amp; Office Equipment £000</b>	<b>Community Assets £000</b>	<b>Assets Under Construction £000</b>	<b>Total Property, Plant &amp; Equipment £000</b>
<b>Cost or Valuations</b>								
At 1st April 2011	5,855	51,183	5,538	4,023	4,225	776	0	<b>71,600</b>
Additions	13	1,439	413	16	112	1,413	30	<b>3,436</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	(70)	0	0	0	0	0	<b>(70)</b>
Revaluation increases/(decreases) recognised in Surplus/Deficit on the Provision of Services	0	(316)	0	0	0	(15)	0	<b>(331)</b>
Assets Reclassified (to)/from Assets Held for Sale	0	(10)	0	0	0	0	0	<b>(10)</b>
Other movements in cost or valuation	0	(5,220)	4,231	0	0	(63)	0	<b>(1,052)</b>
<b>At 31st March 2012</b>	<b>5,868</b>	<b>47,006</b>	<b>10,182</b>	<b>4,039</b>	<b>4,337</b>	<b>2,111</b>	<b>30</b>	<b>73,573</b>
<b>Accumulated Depreciation &amp; Impairment</b>								
At 1st April 2011	(2,861)	(1,470)	(1,487)	(2,455)	(1,159)	0	0	<b>(9,432)</b>
Depreciation charge	(284)	(871)	(434)	(594)	(366)	0	0	<b>(2,549)</b>
Depreciation written out to the Revaluation Reserve	0	300	0	0	0	0	0	<b>300</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	142	0	0	0	0	0	<b>142</b>
Other movements in depreciation or impairment	0	175	(106)	0	0	0	0	<b>69</b>
<b>At 31st March 2012</b>	<b>(3,145)</b>	<b>(1,724)</b>	<b>(2,027)</b>	<b>(3,049)</b>	<b>(1,525)</b>	<b>0</b>	<b>0</b>	<b>(11,470)</b>
<b>Net Book Value</b>								
<b>At 31st March 2012</b>	<b>2,723</b>	<b>45,282</b>	<b>8,155</b>	<b>990</b>	<b>2,812</b>	<b>2,111</b>	<b>30</b>	<b>62,103</b>

In line with the requirement to account for significant component elements of Property, Plant & Equipment the value for of the cremator equipment (£1.297m) has been transferred from the value of the crematorium in Land & Buildings and moved to Plant, Machinery & Equipment. A balance for accumulated depreciation has also been established. The figures for 2011/12 have been restated to reflect this.

Community Assets have all previously been revalued at £1 each, in accordance with Note 2. The Statement of Recommended Practice for Local Authority Accounting requires Community Assets to be recorded on the Balance Sheet at Historic Cost. Due to the age and nature of many of the Community Assets it is not possible to ascertain an accurate historical cost, but expenditure incurred is now added to the value of the asset. Any expenditure on Community Assets was previously written off as Revenue Expenditure charged to Capital under Statute.

### **Depreciation**

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Buildings – straight-line allocation over the useful life of the property as estimated by a suitably qualified officer.
- Vehicles, Plant, Furniture, IT & Office Equipment – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.
- Infrastructure - straight-line allocation over 20 years.

### **Capital Commitments**

At 31<sup>st</sup> March 2013 the Council has only entered into one contract in 2013/14 and future years, budgeted to cost £1.362m, for Phase 2 of the High Street Regeneration Scheme. Similar commitments at 31<sup>st</sup> March 2012 were £1.154m.

### **Revaluations**

The Council carries out a rolling programme that ensures that all Property, Plant & Equipment required to be measured at fair value is revalued at least every 5 years. All valuations were carried out externally by Harrison's Chartered Surveyors. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of RICS. The latest revaluations were carried out as at 1<sup>st</sup> April 2012.

The table also shows the historic cost values of the various asset classes, which were established at 1<sup>st</sup> April 2007 when the current capital accounting requirements came into force.

	Infrastructure Assets	Community Assets	Land & Buildings	Plant, Machinery & Equipment	Vehicles	IT & Office Equipment	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	2,507	3,098	357	7,626	395	2,542	3	16,528
Valued at fair value as at:								
31st March 2009			1,865					1,865
31st March 2010			32,676					32,676
31st March 2011			440					440
31st March 2012			7,400					7,400
31st March 2013			1,907					1,907
<b>Total Cost or Valuation</b>	<b>2,507</b>	<b>3,098</b>	<b>44,645</b>	<b>7,626</b>	<b>395</b>	<b>2,542</b>	<b>3</b>	<b>60,816</b>

## 18 - INVESTMENT PROPERTIES

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

	2012/13	2011/12
	£000	£000
Rental income from investment property	(735)	(649)
Direct operating expenses arising from investment property	377	341
<b>Net (gain)/loss</b>	<b>(358)</b>	<b>(308)</b>

The Council's investment properties are held under operating leases following an assessment of the terms of the individual leases. There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

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

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	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Balance at start of the year	12,469	14,917
<b>Additions:</b>		
Transfers from Property, Plant & Equipment		299
Disposals		(480)
Net gains/losses from fair value adjustments	98	(2,267)
Other changes		
<b>Balance at end of year</b>	<b>12,567</b>	<b>12,469</b>

**19 – HERITAGE ASSETS: 5 YEAR SUMMARY OF TRANSACTIONS**

	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance Brought Forward	10,090	10,160	10,245	10,279	10,279
Acquisitions	70	84	34		55
Disposals					
<b>Balance Carried Forward</b>	<b>10,160</b>	<b>10,245</b>	<b>10,279</b>	<b>10,279</b>	<b>10,334</b>

**20 – HERITAGE ASSETS: RECONCILIATION OF THE CARRYING VALUE HELD BY THE COUNCIL**

<b>Cost or Valuation</b>	<b>Museum Exhibits</b>	<b>War Memorials</b>	<b>Statues &amp; Sculptures</b>	<b>Other Items</b>	<b>Total Assets</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
1st April 2011	9,090	450	460	279	10,279
Additions					0
Disposals					0
Revaluations					0
Impairment Losses					0
Depreciation					0
<b>31st March 2012</b>	<b>9,090</b>	<b>450</b>	<b>460</b>	<b>279</b>	<b>10,279</b>
1st April 2012	9,090	450	460	279	10,279
Additions			55		55
Disposals					0
Revaluations					0
Impairment Losses					0
Depreciation					0
<b>31st March 2013</b>	<b>9,090</b>	<b>450</b>	<b>515</b>	<b>279</b>	<b>10,334</b>



## **Museum Exhibits**

The exhibits are held in two main locations, the Maidstone Museum & Bentrif Art Gallery, and the Carriage Museum. Further information on the museums and their collections can be seen on their dedicated website:

<http://www.museum.maidstone.gov.uk/>

Maidstone Museum has recently been the subject of a major refurbishment, including the creation of a new extension to the Museum, which has recently opened. This has extended the amount of the collection that is on view to the public, and has also improved the storage facilities for the remainder of the collection.

Included within the total value of £9.090m are a number of significant items:

- A copy of a Lambeth Bible valued at £1m
- A number of Japanese woodblock prints valued in total at £1.2m
- A number of Japanese Inro exhibits valued in total at £0.6m

The total of £9.090m represents those items that have formally been valued for insurance purposes by a number of reputable auction houses. The value of the total collection is likely to be far higher, and is valued for insurance purposes at £17.5m (which includes items on loan to the Council, and those held in Trust at the Museum), but it is considered that it would not be cost-effective or of any significant benefit to formally value the entire collection.

The museums' collections are administered with reference to an Acquisition and Disposal policy approved by the museums' governing body (the Council). This is a requirement of the Museums, Libraries & Archives Council's (MLA) 'Accreditation' Scheme (now operated by Arts Council England). Its purpose is to review the present state and use of the collections and define how artefacts and specimens enter and leave the collections. It ensures material is accepted according to a recognized strategy, serves as a reference document to guide curatorial decisions and encourages public confidence in the Museum as a suitable repository. It covers the recording of artefacts and specimens and through its use determines how widely the collections can be accessed by the general public (e.g. digitisation of the records will enable remote access to the collections via the Internet).

## **War Memorials**

The Council is responsible for two war memorials, one in the Broadway and the other in Brenchley Gardens. A local stone mason has provided a replacement value for the two memorials. Upkeep and maintenance of the memorials is the responsibility of the Council's Property Services section.

## **Statues and Sculptures**

There are a number of statues and sculptures throughout the borough that the Council are responsible for. These are in a number of locations, and have been valued at their purchase cost, where this is known, although none of them individually have a significant value.

## Other Items

This relates to two items, the civic regalia used by the Mayor, and the 'Elemental' art installation on the bridge across the River Medway. The civic regalia has been valued by a local jeweller for insurance purposes, and the art installation has been valued at purchase cost.

## Listed Buildings

The Old College complex, comprising the Gateway, the Masters Tower and the Quarterdeck has been classified as a heritage asset. However due to the age and nature of the buildings it would not be possible to ascertain a true and accurate valuation.

## 22 - INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant & Equipment. The intangible assets primarily cover purchased licences.

The carrying amount of intangible assets is amortised on a straight-line basis over 3 or 5 years. The amortisation of £0.251m charged to revenue in 2012/13 was charged to the IT Administration cost centre (included in Central Services to the Public) and the absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	2012/13 £000	2011/12 £000
<b>Balance at start of year:</b>		
Gross carrying amount	1,700	1,403
Accumulated amortisation	(1,128)	(945)
Net carrying amount at start of year	572	458
Additions	342	297
Amortisation for the period	(251)	(183)
<b>Net carrying amount at end of year</b>	<b>663</b>	<b>572</b>

## 22 - FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long-term		Short-Term	
	31st March 2013 £000	31st March 2012 £000	31st March 2013 £000	31st March 2012 £000
<b>Investments</b>				
Loans & receivables		0	13,520	13,797
Available-for-sale financial assets	11	11		0
	11	11	13,520	13,797
Bank Overdraft				
<b>Debtors</b>				
Loans & receivables	30	34	0	8,668
<b>Creditors</b>				
Financial liabilities at amortised cost			0	5,019
<b>Other Long Term Liabilities</b>				
Finance Lease Liabilities	2,124	2,806	428	994

On the face of the Balance Sheet Loans & Receivables are split in Current Assets between Short Term Investments and Cash & Cash Equivalents.

The current financial liabilities are all due to be settled within one year.

### Income & Expense

	Long-Term		Short Term	
	31st March 2013 £000	31st March 2012 £000	31st March 2013 £000	31st March 2012 £000
<b>Income:</b>				
Loans & Receivables		0	389	312
Available-for-sale Financial Assets		0		0
Other Interest		0	2	4
<b>Total</b>	<b>0</b>	<b>0</b>	<b>391</b>	<b>316</b>

### Fair Value of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Where an instrument has a maturity of less than 12 months the fair value is taken to be the carrying amount. The Council has no loans or long-term creditors, and the fair value of trade and other receivables is taken to be the invoiced or billed amount.

## **23 - NATURE & EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

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

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

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Head of Finance & Customer Services and the Treasury Management Accountant, under policies approved by the Council on 2<sup>nd</sup> March 2011 in the Annual Treasury Management Strategy, which can be viewed on the Council's website – <http://www.maidstone.gov.uk>. A summary of the main points of the 2012/13 Treasury Management Strategy is also shown below.

The Council also provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash. These are set out in the Council's Treasury Management Practices, which are requirement of CIPFA's Treasury Management Code of Practice, which has been adopted by the Council. Treasury Management indicators have also been set to control key financial instruments risks in accordance with CIPFA's Prudential Code. The Treasury Management Practices can also be viewed on the Council's website, at the above link.

### **Treasury Management Strategy 2012/13**

A summary of the main points of the strategy is as follows:

- Invest funds short term (up to 1 year) so that funds are available to invest if rates increase.
- Up to £3m being invested for 1 year if the funds become available and the rates are favourable.
- No planned borrowing, other than short term cash flow purposes.
- Group limits placed on institutions within same ownership group.

### **Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. There are limits based on credit ratings set on the amount and length of time deposits can be made with individual banks and financial institutions, and these are set out in the Annual  
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Treasury Management Strategy. These ratings are Supplied by Sector (the Council's Treasury Advisors), who look at ratings from all three credit rating agencies, Fitch, Moodys and Standard and Poors. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

There are no credit limits set on the authority's customers, as the amounts involved are not considered sufficiently material to warrant the setting of such limits.

As at 31<sup>st</sup> March 2013 the investments were held with the following institutions:

	<b>31st March 2013 £000</b>	<b>31st March 2012 £000</b>
AAA rated Institutions	0	0
AA rated Institutions	0	0
A rated Institutions	11,520	13,620
Unrated Building Societies	2,000	0
UK Government	11	11
<b>Total</b>	<b>13,531</b>	<b>13,631</b>

### Liquidity Risk

Liquidity risk arises from the Council having insufficient resources to meet its ongoing commitments. The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money market and the Public Loans Works Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Borrowing is generally only undertaken on a short-term basis for cash flow purposes, and there is also an overdraft facility of £0.5m available with Lloyds TSB Bank. However provision has also been made with the current Treasury Management Strategy to have an authorised debt limit of £8m to fund ongoing schemes in the event of projected capital receipts not being realised.

### Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council’s day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

### **Market Risk – Interest Rate Risk**

As the Council is currently debt-free its only risk is in relation to exposure to interest rate movements in its investments. This exposure is managed by use of Prudential Indicators, which set limits on the proportion of investments held at fixed and variable rates. These indicators are monitored on a daily basis. The main exposure to risk in this area is the use of investment Call Accounts and Money Market Funds which are linked to Base Rate. However the risk is considered to be small as these accounts are generally only used for the short-term investment of funds for cash flow purposes, and funds can be withdrawn on a daily basis. The risk exposure is summarised in the table below.

	<b>31st March 2013 £000</b>	<b>31st March 2012 £000</b>
Call Accounts	5,520	1,620
Receivables	8,000	12,000
Available-for-Sale Financial Assets	11	11
<b>Total</b>	<b>13,531</b>	<b>13,631</b>

The Council also makes use of interest rate forecasts and market data and advice provided by its Treasury Management advisors to ensure that investment income is maximised wherever possible.

### **Foreign Exchange Risk**

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

## 24 - ASSETS HELD FOR SALE

All assets held for sale are non-current assets. Assets classified under this heading would normally be expected to be disposed of within a year, as per the Code of Practice for Local Authority Accounting in the United Kingdom. However, due to the current economic situation the Council has been unable to dispose of these assets for a number of years now. However, they continue to be marketed with a reasonable expectation of disposal, and at the Balance Sheet date negotiations with prospective buyers were at an advanced stage, therefore it was considered appropriate to continue to classify them as held for sale.

	2012/13 £000	2011/12 £000
<b>Balance outstanding at start of year</b>	<b>3,475</b>	<b>2,264</b>
Assets newly classified as held for sale:		
Property, Plant & Equipment		10
Investment Properties		
Revaluation gains		1,361
Revaluation losses		(150)
Assets sold	(2,925)	(10)
<b>Balance outstanding at year-end</b>	<b>550</b>	<b>3,475</b>

## 25 – INVENTORIES

These are materials or supplies that will be consumed in producing goods or providing services or will be sold or distributed as part of the Council's ordinary business.

	2012/13 £000	2011/12 £000
Stores	103	102
Stamps & Franks	4	1
<b>Total</b>	<b>107</b>	<b>103</b>

## 26 – DEBTORS

### Long Term

	2012/13 £000	2011/12 £000
Mortgages	29	33
Housing Act Advances	1	1
<b>Total</b>	<b>30</b>	<b>34</b>

### Short Term

	2012/13 £000	2011/12 £000
Central government bodies	4,181	1,115
Other local authorities	34	350
Other entities and individuals	9,881	7,009
<b>Total</b>	<b>14,096</b>	<b>8,474</b>

The movement in the balances for Central Government bodies is a reflection of changes to amounts due to the Government in respect of Housing Benefits.

Other entities and individuals is broken down as follows:

	2012/13 £000	2011/12 £000
Council Tax payers	2,126	1,221
Capital debtors	603	1,094
General debtors	5,539	3,476
Payments in Advance	984	596
Other miscellaneous amounts	629	622
<b>Total</b>	<b>9,881</b>	<b>7,009</b>



## 27 - CASH & CASH EQUIVALENTS

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

	2012/13 £000	2011/12 £000
Cash held by the Council	9	46
Bank current accounts	(77)	131
Short-term deposits	6,520	6,620
<b>Total</b>	<b>6,452</b>	<b>6,797</b>

Cash & Cash Equivalents are split on the face of the Balance Sheet between Current Assets and Current Liabilities.

## 28 – CREDITORS

### Short Term

	2012/13 £000	2011/12 £000
Central government bodies	25	544
Other local authorities	433	80
Other entities and individuals	7,899	6,614
<b>Total</b>	<b>8,357</b>	<b>7,238</b>

Other entities and individuals is broken down as follows:

	2012/13 £000	2011/12 £000
General creditors	3,875	3,390
Capital creditors	575	1,230
Council tax payers	567	179
Non-domestic rate payers	941	0
Receipts in advance	1,217	142
Deposits	572	270
Retentions	152	129
<b>Total</b>	<b>7,899</b>	<b>5,340</b>

## 29 - PROVISION FOR BAD DEBTS

	2012/13 £000	2011/12 £000
Excess Charges Provision	420	384
Sundry Bad Debts Provision	2,632	2,496
<b>Total</b>	<b>3,052</b>	<b>2,880</b>

## 30 - CAPITAL GRANTS RECEIVED IN ADVANCE

Grants and other contributions given towards the Council's capital expenditure are retained in this account whilst conditions remain attached to financial assistance.

	2012/13 £000	2011/12 £000
<b>Balance at start of year:</b>	1,599	1,678
Grants Received	2,923	2,513
Transferred to Grants Unapplied	(588)	0
Funding used for capital expenditure	(2,350)	(2,592)
<b>Balance at end of year:</b>	<b>1,584</b>	<b>1,599</b>

## 31 - TRUST FUNDS

The Council is required to set out details of the nature and amount of trust funds where it acts as sole trustee, the only one of which is the Cobtree Estate Trust. The object of this trust is to hold Cobtree Manor and Cobtree Manor Estate for the benefit of the inhabitants of Maidstone and other members of the general public.

Gross expenditure in 2012/13 totalled £511,857 (£205,763 in 2011/12). Gross income in 2012/13 totalled £340,795 (£306,740 in 2011/12). The increased expenditure is due to the construction of the new play area in Cobtree Manor Park.

The assets and liabilities of the Trust as at 31<sup>st</sup> March 2013 may be summarised as follows:

	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
<b>Fixed Assets:</b>		
Cobtree Golf Course	500	501
Cobtree Manor Park	936	936
Investments	1,527	1,328
	<b>2,963</b>	<b>2,765</b>
Current Assets	231	83
Current Liabilities	302	4
<b>Total assets less current liabilities</b>	<b>2,892</b>	<b>2,848</b>
<b>Total Charitable Funds</b>	<b>2,892</b>	<b>2,844</b>

### **32 - PRIVATE FINANCE INITIATIVES & SIMILAR CONTRACTS**

The Council has no Private Finance Initiative Schemes, but the following scheme is a similar contract as it is defined as a service concession arrangement.

The Council entered into an agreement during 2009/10 with Serco, the managing contractor of Maidstone Leisure Centre, to undertake a major refurbishment of the centre. Under the terms of the agreement Serco have initially funded the cost of the works through a loan, and the Council are then repaying this loan over a 15 year term, by equal monthly instalments. The principal element of this loan is reflected on the Balance Sheet, and will be written down annually by the amount of principal repaid. Interest paid on the loan is charged to the Comprehensive Income & Expenditure Statement.

The value of the works carried out to date (£4.073m) has been reflected in the non-current assets total, with a matching entry shown as a deferred liability (less repayments made in 2012/13) to reflect the balance due on the loan for the works done to date.

The annual principal repayments are credited to the Comprehensive Income & Expenditure Statement, then reversed out of the Movement in Reserves Statement to the Capital Adjustment Account to reflect the fact that this is a repayment of debt, as this arrangement is classed as borrowing under the terms of the CIPFA Prudential Code for Capital.

## Payments

	2012/13 £000	2011/12 £000
Balance outstanding at start of year	2,955	3,347
Value of capital works	0	0
Repayment of principal	(403)	(392)
<b>Balance outstanding at end of year</b>	<b>2,552</b>	<b>2,955</b>

These figures are shown on the face of the Balance Sheet as Deferred Liabilities, and are split between the Short Term and Long Term elements.

### 33 - LEASE TYPE ARRANGEMENTS

Under the terms of IFRIC 4 (Determining Whether an Arrangement Contains a Lease) the Council is required to identify any contractual arrangements that may include an element that could be classified as a finance lease. It has been established that the vehicles used in the provision of the refuse collection and park & ride contracts need to be classified under this arrangement, and therefore the value of the assets used are now reflected within the Property, Plant & Equipment heading on the Balance Sheet, as finance leases need to be shown in this way.

The cost of services within the Comprehensive Income & Expenditure Statement are charged with a sum that reflects the value of the element of the contract that relates to the vehicles, along with depreciation and financing charges. These sums are all reversed out in the Movement in Reserves Statement to the Capital Adjustment Account to ensure that there is no impact upon Council Tax.

	2012/13 £000	2011/12 £000
Balance outstanding at start of year	845	1,390
Value of assets in use	0	0
Repayment of principal	(544)	(545)
<b>Balance outstanding at end of year</b>	<b>301</b>	<b>845</b>

These figures are shown on the face of the Balance Sheet as Deferred Liabilities, and are split between the Short Term and Long Term elements.

### 34 - USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and the table below:

#### Capital Receipts Reserve

This reserve contains the proceeds from the sale of non-current assets, which are used to fund capital expenditure.

	31st March 2013 £000	31st March 2012 £000
<b>Balance at 1st April</b>	<b>55</b>	<b>1,468</b>
Capital Receipts Received	3,613	1,099
Capital Receipts Applied	(2,624)	(2,500)
Pooled Capital Receipts		(12)
<b>Balance at 31st March</b>	<b>1,044</b>	<b>55</b>

### 35 - UNUSABLE RESERVES

	31st March 2013 £000	31st March 2012 £000
<b>Restated</b>		
Revaluation Reserve	25,018	26,066
Capital Adjustment Account	57,460	59,629
Deferred Capital Receipts Reserve	29	33
Pensions Reserve	(48,985)	(46,566)
Accumulated Absences Account	(140)	(83)
<b>Total Unusable Reserves</b>	<b>33,382</b>	<b>39,079</b>

#### a) Revaluation Reserve

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

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

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

	<b>31st March 2013 £000</b>	<b>31st March 2012 £000</b>
<b>Balance at 1st April</b>	<b>26,066</b>	<b>24,488</b>
Upward revaluation of assets	1,081	1,652
Downward revaluation of assets		(63)
Disposals	(1,360)	
Prior Year Adjustments	(580)	
Difference between fair value depreciation and historical cost depreciation	(189)	(11)
<b>Balance at 31st March</b>	<b>25,018</b>	<b>26,066</b>

The prior year adjustments are in respect of the disposal of a car park that took place in a prior year but had still been included in the value of Property, Plant & Equipment, and the transfer of the land at the Crematorium from Property, Plant & Equipment to Community Assets.

#### **b) Capital Adjustment Account**

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

The Account contains accumulated gains and losses on Investment Properties that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant & Equipment before 1<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 5 provides details of source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

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	<b>31st March 2013 £000</b>	<b>31st March 2012 £000</b>
<b>Balance at 1st April</b>	<b>59,629</b>	<b>61,384</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:		
Sums set-aside for Debt Repayment	948	935
Charges for depreciation of non-current assets	(2,588)	(2,482)
Amortisation of intangible assets	(251)	(183)
Disposal of Investment Properties	0	(480)
Prior Year Adjustments	(194)	(8)
Revaluation Losses on Property, Plant & Equipment	(17)	(311)
Revaluation Losses on Investment Properties	0	(385)
Revaluation Losses on Assets Held for Sale	0	(150)
Revenue expenditure funded from capital under statute	(3,328)	(3,918)
Write-off of non-enhancing capital expenditure	(277)	(167)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(3,117)	0
	<b>(8,824)</b>	<b>(7,149)</b>
Adjusting amounts written out of the Revaluation Reserve	1,549	11
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(7,275)</b>	<b>(7,138)</b>
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	2,624	2,500
Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	2,384	2,592
Application of grants to capital financing from the Capital Grants Unapplied Account		
Capital expenditure charged against the General Fund balance		2,559
	<b>5,008</b>	<b>7,651</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	98	(2,268)
<b>Balance at 31st March</b>	<b>57,460</b>	<b>59,629</b>

**c) Pensions Reserve**

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

	<b>31st March 2013 £000</b>	<b>31st March 2012 £000</b>
<b>Balance at 1st April</b>	46,566	30,342
Actuarial gains or losses on pension assets and liabilities	1,488	16,602
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement	3,688	2,296
Employer's pension contributions and direct payments to pensioners payable in the year	(2,756)	(2,674)
<b>Balance at 31st March</b>	<b>48,986</b>	<b>46,566</b>



#### d) Deferred Capital Receipts Reserve

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

	31st March 2013 £000	31st March 2012 £000
<b>Balance at 1st April</b>	33	67
Transfer to the Capital Receipts Reserve upon receipt of cash	(4)	(34)
<b>Balance at 31st March</b>	<b>29</b>	<b>33</b>

#### d) Accumulated Absences Account

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

	31st March 2013 £000	31st March 2012 £000
<b>Balance at 1st April</b>	(83)	(87)
Settlement of cancellation of accrual made at the end of the preceding year	83	87
Amounts accrued by the end of the current year	(0)	0
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements	(140)	(83)
<b>Balance at 31st March</b>	<b>(140)</b>	<b>(83)</b>

### 36 - CAPITAL EXPENDITURE & CAPITAL FUNDING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it.

	2012/13 £000	2011/12 £000
<b>Capital Investment</b>		
Property, Plant & Equipment	1,338	3,436
Intangible Assets	342	297
Revenue Expenditure Funded from Capital Under Statute	3,328	3,918
	<b>5,008</b>	<b>7,651</b>
<b>Sources of Finance</b>		
Capital receipts	2,624	2,500
Government grants & other contributions	2,384	2,592
Direct Revenue Contributions	0	2,559
	<b>5,008</b>	<b>7,651</b>

### 37 - DEFINED BENEFIT PENSION SCHEMES

#### Participation in Pension Schemes

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

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

#### Transactions Relating to Post-employment Benefits

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

the Comprehensive Income & Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
<b>Comprehensive Income &amp; Expenditure Statement</b>		
Cost of Services:		
- Current service cost	2,399	1,825
- Past service costs	0	0
- Settlements & curtailments	9	226
Financing and Investment Income & Expenditure:		
- Interest cost	5,258	5,456
- Expected return on scheme assets	(3,978)	(4,759)
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>3,688</b>	<b>2,748</b>
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement:		
- Actuarial gains & losses	-	-
<b>Total Post Employment Benefit Charged to the Comprehensive Income &amp; Expenditure Statement</b>	<b>3,688</b>	<b>2,748</b>
Movement in Reserves Statement:		
- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	3,688	2,296
Actual amount charged against the General Fund Balance for pensions in the year:		
- Employers' contributions payable to the scheme	(2,756)	(2,674)

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income & Expenditure Statement to 31<sup>st</sup> March 2013 is a loss of £2.419m.

### Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2012/13 £000	2011/12 £000
Opening balance at 1st April	116,535	100,553
Current service cost	2,399	1,825
Interest cost	5,258	5,456
Contributions by scheme participants	646	636
Actuarial gains & losses	7,462	13,385
Benefits paid	(4,973)	(5,250)
Past service costs	0	0
Unfunded Pension Payments	(199)	(196)
Curtailments	9	241
Settlements	0	(115)
<b>Closing balance at 31st March</b>	<b>127,137</b>	<b>116,535</b>

Reconciliation of fair value of the scheme (plan) assets:

	2012/13 £000	2011/12 £000
Opening balance at 1st April	69,969	70,211
Expected Rate of Return	3,978	4,759
Actuarial gains & losses	5,974	(3,049)
Employer Contributions	2,757	2,958
Contributions by scheme participants	646	636
Benefits paid	(5,172)	(5,446)
Payment of Bulk Transfer Values	0	(100)
<b>Closing balance at 31st March</b>	<b>78,152</b>	<b>69,969</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on the gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £9.952m. (2011/12: £1.711m)

	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Opening balance at 1st April	69,969	70,211
Expected Rate of Return	3,978	4,759
Actuarial gains & losses	5,974	(3,049)
Employer Contributions	2,757	2,958
Contributions paid by scheme participants	646	636
Benefits paid	(5,172)	(5,446)
Payment of Bulk Transfer Values	0	(100)
<b>Closing balance at 31st March</b>	<b>78,152</b>	<b>69,969</b>

### Scheme History

	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Present value of assets in the Local Government Pension Scheme	46,350	62,238	70,211	69,969	78,152
Fair value of assets in the Local Government Pension Scheme	83,960	126,515	100,553	116,535	127,137
<b>Surplus/(Deficit) in the scheme</b>	<b>(37,610)</b>	<b>(64,277)</b>	<b>(30,342)</b>	<b>(46,566)</b>	<b>(48,985)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £48.985m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31<sup>st</sup> March 2013 are £2.399m.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels, etc. The scheme has been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Kent County Council Pension Fund being based on the latest full valuation of the scheme as at 31<sup>st</sup> March 2010.

The principal assumptions used by the actuary have been:

	<b>2012/13</b>	<b>2011/12</b>
<b>Long-term expected rate of return of assets in the scheme:</b>		
Expected Return on Assets	5.8%	5.8%
<b>Mortality assumptions:</b>		
Longevity at 65 for current pensioners:		
- Men	20.1	20.0
- Women	24.1	24.0
Longevity at 65 for future pensioners:		
- Men	22.1	22.0
- Women	26	25.9
Rate of inflation	3.3%	3.3%
Rate of increase in salaries	4.7%	4.7%
Rate of increase in pensions	2.5%	2.5%
Rate of discounting scheme liabilities	4.3%	4.6%

### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed in the following categories, measured as a percentage of assets and liabilities at 31<sup>st</sup> March 2013:

	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Difference between the expected and actual return on assets	-33.0	21.1	5.7	-4.4	7.6
Experience gains and losses on liabilities	0.0	0.4	8.0	0.0	0.1

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	<b>31st March 2013</b>		<b>31st March 2012</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Equities	55,488	71	51,777	74
Gilts	0	0	700	1
Other Bonds	10,160	13	6,997	10
Property	6,252	8	6,297	9
Cash	3,126	4	2,799	4
Target Return Portfolio	3,126	4	1,399	2
<b>Total</b>	<b>78,152</b>	<b>100</b>	<b>69,969</b>	<b>100</b>

### **38 - LEASES**

#### **Finance Leases – Council as Lessee**

The Council currently has a number of arrangements which it classifies as finance leases, covering the operation of the leisure centre, and vehicles used in the delivery of the waste collection and park & ride contracts.

The future minimum lease payments due under these arrangements in future years are:

	<b>31st March 2013 £000</b>	<b>31st March 2012 £000</b>
Not more than 1 year	1,061	1,036
Later than 1 year and not later than 5 years	2,746	2,147
Later than 5 years	3,047	4,073
	<b>6,854</b>	<b>7,256</b>

#### **Operating Leases – Council as Lessee**

The Council has a number of operating leases, primarily covering vehicles, plant, equipment and refuse & recycling waste bins.

The future minimum lease payments due under non-cancellable leases in future years are:

	<b>31st March 2013 £000</b>	<b>31st March 2012 £000</b>
Not more than 1 year	33	38
Later than 1 year and not later than 5 years	56	89
Later than 5 years	0	0
	<b>89</b>	<b>127</b>

## APPENDIX A - Maidstone Borough Council – Statement of Accounts 2012/13

The expenditure charged to the Comprehensive Income & Expenditure Statement for 2012/13 in relation to these leases was as follows:

- Cultural & Related Services - £9,647
- Central Services - £148,249
- **Total - £157,896**

### Operating Leases – Council as Lessor

The Council leases out property under operating leases for the following purposes:

- Domestic Dwellings
- Retail & Leisure Units
- Light Industrial Units

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31st March 2013 £000	31st March 2012 £000
Not more than 1 year	82	108
Later than 1 year and not later than 5 years	24	74
Later than 5 years	764	747
	<b>870</b>	<b>929</b>

### 39 - IMPAIRMENT LOSSES

During 2012/13 the Council did not identify any losses as a result of impairment.

### 40 - TERMINATION BENEFITS

The Council terminated the contracts of 9 employees in 2012/13, incurring liabilities of £0.042m (34 employees/£0.532m in 2011/12). The sums were payable to a number of officers who were made redundant primarily as part of various structural changes that took place during the year. There are further details in Note 13 (Exit Packages).



#### **41 - CONTINGENT LIABILITIES**

The Council entered into a PFI Agreement with Kent County Council and nine other Kent District Councils in 2006/07 which aims to provide affordable housing throughout the county. In the event of the contractor defaulting on its obligations 10 years into the contract there is the possibility of the Council incurring an estimated liability of £6.954m, and in the event of the contract being terminated through force majeure after 10 years there is an estimated liability of £8.052m. Whilst these scenarios are considered highly unlikely the sums concerned are material enough to be noted.

The Council is also dealing with potential insurance claims in respect of mesothelioma, which is a condition caused by exposure to asbestos. A number of former employees of the Council have, or may be, lodging claims with Municipal Mutual Insurance, who were the Council's insurers at the time the alleged exposure took place. One claim to the value of £55,000 has been settled, and the estimated settlement costs currently totals £0.200m.

A group of Property Search Companies are seeking to claim refunds of fees paid to the Council to access land charges data. Proceedings have not yet been issued. The Council has been informed that the value of those claims at present is estimated to be £31,000 plus interest and costs. The claimants have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anticompetitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

#### **42 - CONTINGENT ASSETS**

There are no contingent assets to report.

#### **43 – EVENTS AFTER THE BALANCE SHEET DATE**

There are no events to report.

**44 – CASHFLOW STATEMENT - ADJUSTMENTS MADE TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS**

	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Depreciation	(2,588)	(2,483)
Revaluation Gains & Losses	(293)	(2,648)
Amortisation of Intangible Assets	(251)	(183)
Movement in impairment for provision of bad debts	(229)	(392)
Movement in Creditors	(882)	5,210
Movement in Debtors	6,641	319
Movement in Inventories	3	21
Movement in Pension Liabilities	(932)	378
Carrying amount of Non-Current Assets sold	(3,117)	(490)
Other Non-Cash items	98	18
	<b>(1,550)</b>	<b>(248)</b>

**45 – CASHFLOW STATEMENT - ADJUSTMENTS FOR ITEMS INCLUDED IN THE NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING & FINANCING ACTIVITIES**

	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Proceeds from Short and Long-Term Investments	0	314
Capital Grants credited to surplus or deficit on the provision of services	2,938	0
Proceeds from sale of Property, Plant & Equipment	3,609	1,086
	<b>6,547</b>	<b>1,400</b>

**46 - CASH FLOW STATEMENT – OPERATING ACTIVITIES**

	2012/13 £000	2011/12 £000
Interest received	(402)	(314)
Interest paid	384	0
Dividends received	0	0
	<b>(18)</b>	<b>(314)</b>

**47 - CASH FLOW STATEMENT – INVESTING ACTIVITIES**

	2012/13 £000	2011/12 £000
Purchase of property, plant & equipment, investment property and intangible assets	2,189	4,032
Purchase of short-term and long-term investments	5,000	30,000
Other payments for investing activities		0
Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(3,126)	(1,086)
Proceeds from short-term and long-term investments	(5,000)	(35,314)
Other receipts for investing activities	(3,901)	0
<b>Net cash flows from investing activities</b>	<b>(4,838)</b>	<b>(2,368)</b>

**48 - CASH FLOW STATEMENT – FINANCING ACTIVITIES**

	2012/13 £000	2011/12 £000
Cash receipts of short & long-term borrowing		
Other receipts from financing activities	(1,471)	
Cash payments for the reduction of outstanding liabilities relating to finance leases		
Repayments of short & long-term borrowing		
Other payments for financing activities	947	66
<b>Net cash flows from financing activities</b>	<b>(524)</b>	<b>66</b>

## COLLECTION FUND STATEMENT & NOTES

2011/12 £000		2012/13 £000    £000	
<b>INCOME</b>			
80,733	Income From Council Tax	81,784	
10,080	Transfers From General Fund Council Tax Benefit	10,213	91,997
52,144	Income From Non-Domestic Rates (Note 2)		54,568
<b>142,957</b>	<b>Total Income</b>		<b>146,564</b>
<b>EXPENDITURE</b>			
Precepts and Demands			
63,184	Kent County Council	63,899	
8,363	Kent Police Authority	8,457	
14,455	Maidstone Borough Council	14,678	
4,098	Kent & Medway Towns Fire Authority	4,144	91,179
Non-Domestic Rates			
51,940	Payments To National Pool	54,361	
205	Cost of Collection Allowance	207	54,568
Bad and Doubtful Debts			
154	Write Off	278	
345	Additional / (Reduced) Provision For Non Payment	245	523
97	Contribution toward previous year's Collection Fund surplus		
<b>142,841</b>	<b>Total Expenditure</b>		<b>146,270</b>
116	Surplus/(Deficit) For Year		295
36	Surplus Brought Forward From Previous Years		152
<b>152</b>	<b>Surplus as at 31st March 2013</b>		<b>447</b>

## Notes to the Collection Fund

### Note 1 – Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating, for this specific purpose, 1 April 1991 values. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Kent County Council, the Kent Police & Crime Commissioner and the Kent & Medway Towns Fire & Rescue Authority and this Council for the forthcoming year and dividing this by the council tax base [the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts: 60,985.3 for 2012/13 (60,301.1 for 2011/12) (see table below)]. This basic amount of council tax for a Band D property £1,476.80 for 2012/13 (£1,476.80 for 2011/12) is multiplied by the proportion specified for the particular band to give an individual amount due. Parish Precepts are added to this basic amount.

The bands, number of dwellings in each, the multiplier for each and the resultant tax base are detailed in the table below.

Band	Number of Dwellings	Multiplier	Council Tax Base
Band A (incl disabled relief)	2.50	5/9	1.4
Band A	3,277.75	6/9	2,185.2
Band B	7,067.00	7/9	5,496.6
Band C	15,752.25	8/9	14,002.0
Band D	15,682.00	9/9	15,682.0
Band E	8,277.50	11/9	10,116.9
Band F	4,789.75	13/9	6,918.5
Band G	3,521.00	15/9	5,868.3
Band H	297.00	18/9	594.0
Other			120.4
			<b>60,985.3</b>

Council tax income as follows:

	£000
Initial Accounts	101,076
Additional Accounts	75,037
Less: Reduced Accounts	(74,264)
	<b>101,849</b>
Less: Amounts written off	(9,852)
<b>Net Income to Fund</b>	<b>91,997</b>

## Note 2 - Income from Non-Domestic Rates

Under the National System for non-domestic rates, the Council collects from local businesses an amount equal to the rateable value of their property multiplied by a uniform rate set by the Government. This money is paid into a National Pool. The Council receives in return a contribution from the Pool based on a standard amount per head of local adult population. This is paid into the Council's General Fund.

Non-Domestic Rate Income to the Collection Fund is as follows:

	<b>£000</b>
Non-Domestic Rateable Value £139.671m <i>(£139.904m in 2011/12)</i>	69,249
Non-Domestic Rate Multiplier 45.8p <i>(43.3p in 2011/12)</i> Small Business Multiplier 45.0p <i>(42.6p in 2010/11)</i>	
Less: Allowances and adjustments during the year	(14,681)
<b>Net Income to Fund</b>	<b>54,568</b>

## Note 3 - Adjustment for Previous Years Community Charge

Although Council Tax replaced Community Charge on 1st April 1993, the Council has continued to account for residual adjustments in relation to the Community Charges raised in earlier years in the Collection Fund. The Council has carried a full provision against any residual debt and in 2007/08 a decision was taken to utilise the provision and write off the remaining debt of £18,929.

## Note 4 - Surplus/(Deficit) on the Collection Fund re Council Tax

Any surplus at the year end is distributed amongst the precepting authorities over the following two financial years. A deficit must be covered by council tax raised the following year. The distribution for 2010/11 given in the tables below is of a surplus.

**APPENDIX A - Maidstone Borough Council – Statement of Accounts 2012/13**

Surplus at 31st March 2012 (£000)		
<b>Distribution:</b>	<b>2012/13</b>	<b>2013/14</b>
	<b>£000</b>	<b>£000</b>
Maidstone Borough Council	25	
Kent County Council	107	
Kent Police Authority	14	
Kent & Medway Towns Fire Authority	7	
	<b>153</b>	

2012/13 Surplus (£000)		
<b>Distribution:</b>	<b>2013/14</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
Maidstone Borough Council		68
Kent County Council		312
Kent Police Authority		40
Kent & Medway Towns Fire Authority		27
		<b>447</b>

The amount distributed has to be used by each authority to reduce the amount of Council Tax that they have to raise to finance their own expenditure. The distribution is calculated by reference to the proportion of the respective precepts and demands made in the previous year.

**Note 5 - Amounts Written Off**

The following amounts were written off during the year:

	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Council Tax	99	154	278
Non-Domestic Rates	499	380	949
Community Charge			
	<b>598</b>	<b>534</b>	<b>1,227</b>

## GLOSSARY OF TERMS

### ACCOUNTING POLICIES

The specific policies and procedures used by the Council to prepare the Statement of Accounts. These include any methods, measurement systems and procedures for presenting disclosures.

### ACCOUNTS

Statement aggregating items of income and expenditure and assets and liabilities. The accounts may show detailed transactions for every activity (generally used for management and control purposes during a financial year) or be summarised to show the overall position at the end of the period. The latter are known as final accounts and show both the net surplus (profit) or deficit (loss) and a balance sheet of the assets, liabilities and other balances at the end of the accounting period. Councils are required to publish a Statement of Accounts as specified in the *Accounts and Audit Regulations 2011*.

### ASSETS HELD FOR SALE

Assets that the Council are actively marketing for sale, and for which there is a reasonable expectation that the sale will take place within one year of the Balance Sheet date.

### BALANCE SHEET

A statement of the assets, liabilities and other balances of the Council at the end of an accounting period.

### BALANCES

Capital or revenue reserves of the Council made up of the accumulated surplus of income over expenditure on the general fund or any other account. Revenue balances may be utilised to provide for unforeseen circumstances, to ensure that payments can be made pending the receipt of income, and if justified they may be used to reduce the collection fund levy.

### CAPITAL EXPENDITURE

Generally, expenditure which is of value to the Council in the provision of services beyond the end of the financial year in which it was incurred, e.g. purchase of land and buildings, construction or improvement of buildings.

### CAPITAL FINANCING

The raising of money to pay for capital expenditure. Usually the cost of capital assets is met by borrowing, but capital expenditure may also be financed by other means such as leasing, contributions from the revenue accounts, the proceeds of the sale of capital assets, capital grants, reserves and other contributions.



## **CAPITAL RECEIPTS**

Proceeds from the sale of capital assets. Capital receipts can be used to repay the debt on assets financed from loan or to finance new capital expenditure, subject to compliance with statutory requirements.

## **COLLECTION FUND**

Councils that collect precepts and non-domestic rates on behalf of other authorities are required to maintain a Collection Fund to summarise the collection and payments of precepts, and any associated adjustments.

## **CREDITORS**

Amounts owed by the Council for work done, goods received, or services rendered but for which payment had not been made at the date of the balance sheet.

## **DEBTORS**

Sums of money due to the Council but unpaid at the balance sheet date.

## **DEPRECIATION**

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

## **GENERAL FUND**

The main revenue account of a charging authority that summarises the cost of all services provided by the Council.

## **HERITAGE ASSETS**

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

## **INTANGIBLE ASSETS**

Intangible assets are assets that do not have a physical substance but are identifiable and controlled by the authority, such as computer software.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

These are the accounting standards (as adapted for the public sector) that the Council are required to follow when preparing the annual Statement of Accounts.

## **INVESTMENT PROPERTIES**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation.

## **PROPERTY, PLANT & EQUIPMENT**

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

## **REVENUE EXPENDITURE FUNDED FROM CAPITAL BY STATUTE**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of property, plant or equipment, and is charged as expenditure to the relevant service revenue account in the year.

## **REVENUE SUPPORT GRANT**

A general grant paid by central government to local authorities to help finance the cost of services. It is paid to charging authorities for credit to the Collection Fund.

## **REVENUE ACCOUNT**

An account which records the day to day expenditure and income of the Council on such items as salaries and wages, running costs of services, the purchase of consumable materials and equipment, and the financing costs of capital assets.

## **SUPPORT SERVICES**

An allocation of the net cost of the administrative and professional departments which provide support for all the Council's services (e.g. Executive Services, Finance, Personnel), together with the costs of pooled administrative buildings.

## **USABLE CAPITAL RECEIPTS**

Funds received by an authority from the sale of capital assets that have yet to be used to finance capital expenditure or repay debt.

## **UNUSABLE RESERVES**

These are non-cash reserves that are kept to manage the accounting processes for non-current assets, retirement benefits and employee benefits and do not represent usable resources for the Council.

## **USABLE RESERVES**

These are funds available to the Council and represent specific amounts set-aside for future policy purposes or earmarked purposes, including the General Fund and the Capital Receipts Reserve.

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**MONDAY 15 JULY 2013**

#### **REPORT OF THE HEAD OF FINANCE & RESOURCES**

**Report prepared by John Owen**

#### **1. TREASURY MANAGEMENT ANNUAL REPORT 2012/13**

##### 1.1 Issue for Decision

1.1.1 This report sets out the activities of the Treasury Management function for the 2012/13 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities

##### 1.2 Recommendation of Head of Finance & Resources

1.2.1 Audit Committee note the review of the financial year 2012/13 which has been compiled in accordance with the Code of Practice on Treasury Management as adopted by this Authority.

1.2.2 Audit Committee agrees that no amendments to current strategy are necessary as a result of the review of activities in 2012/13.

##### 1.3 Reasons for Recommendation

1.3.1 The council has adopted and incorporated into its Financial Regulations, the CIPFA Code of Practice on Treasury Management in Local Authorities (The Code). This Code covers the principles and guidelines relating to borrowing and investment operations.

1.3.2 It was previously agreed by Council that the following reporting requirements are made:

- An annual treasury management strategy in advance of the year is agreed by the Council.
- Quarterly budget monitoring reports are provided to allow monitoring by Cabinet
- Mid year and annual reports are considered Audit Committee and if required recommendation is made to Council to amend the current strategy.

1.3.3 In February 2012 the Council approved a Treasury Management Strategy for 2012/13. The Code requires a report to be presented reviewing the strategy that was approved, the previous year's activities and endorsing or amending current procedures for the forthcoming year.

#### 1.4 Key Elements of 2012/13 Strategy

1.4.1 The key objectives of the approved strategy for 2012/13 are set out below. Performance against these objectives is set out in section 1.6.

- a) Keep investments short term (up to 1 year) to help fund the existing capital programme when needed and to make funds available to invest if rates increased;
- b) Use up to £3m from core cash balances to be invested for 1 year or above if rates are at a premium over predicted base rates and funds are available for the term.
- c) No planned borrowing, other than for short-term cashflow purposes. The council is currently debt-free;
- d) Group limits placed in institutions within the same ownership group;
- e) The Head of Finance & Customer Services be given delegated authority to add or withdraw institutions from the counterparty list when ratings change, either as advised by Sector or from another reliable market source.

#### 1.5 Economic Overview

1.5.1 During the quarter ended 31<sup>st</sup> March 2013

- Indicators show that the economy was very near to a second consecutive quarter of negative growth
- Unemployment rose for the first time in a year
- Retail spending has increased
- Inflation is still over 2% target
- Three members of the Monetary Policy Committee voted for further quantitative easing

1.5.2 The council's current Treasury Advisers, Sector, provide the following rates forecast:

	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
<b>Bank rate</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
<b>5yr PWLB rate</b>	1.80%	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%	2.40%
<b>10yr PWLB rate</b>	2.90%	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.50%
<b>25yr PWLB rate</b>	4.10%	4.10%	4.10%	4.20%	4.20%	4.30%	4.40%	4.60%
<b>50yr PWLB rate</b>	4.20%	4.20%	4.20%	4.40%	4.40%	4.50%	4.60%	4.70%

- The first bank increase is expected to be in March 2015.
- Long term PWLB rates are expected to steadily increase to reach 4.70% by the first quarter of 2015.

## 1.6 MBC Overview

1.6.1 Expenditure levels began 2012/13 at a slow pace picking up later in the year. This had the effect of creating temporary cash balances for investment that were higher than expected. By the end of the year expenditure was significantly on target with a positive revenue cash flow of £1.1m greater than estimated and in excess of £5m in capital resources being carried forward to future years of the programme.

1.6.2 The average rate of interest received on the council's investments over the period was 1.17% compared to a forecast level of 1.0%. Due to additional resources available for investment during the year and the correction of a misstated interest accrual from 2011/12 investment income for 2012/13 is £400,000 against a budget of £250,000.

1.6.3 In reviewing the key elements of the strategy, as set out in section 1.4, the following paragraphs detail the outcome for 2012/13.

- a. All investments have been on a short-term basis to be used, as agreed within the Strategy which includes £3m invested with Lloyds TSB (part nationalised bank) for 346 days at a rate of 3.0%.

- b. £2m of core cash funds were invested for 367 days also with Lloyds TSB at a rate of 2.85%.
- c. There was no borrowing during 2012/13 not even for temporary cash flow purposes.
- d. Investments remained within the group limits set during the year. The current balance of investments as at 31<sup>st</sup> March 2013 is £13.520m. These are listed within **Appendix A** with no two investments being within the same group of companies.
- e. During 2012/13 the Head of Finance & Resources did not act upon the delegation given in the strategy.

## 1.7 Annual Investment Strategy

1.7.1 The Treasury Management Strategy for 2012/13 was approved by Council on February 2012. The council's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy, outlines the council's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

1.7.2 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 Sector as well as being mindful of market intelligence.

## 1.8 Borrowing

The Council is currently debt free so there is no need for long term borrowing. The council did not borrow any funds during 2012/13.

## 1.9 Prudential Indicators

1.9.1 It is a statutory duty for the council to determine and keep under review the "Affordable Borrowing Limits".

1.9.2 During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown within **Appendix B**.

## 1.10 Cash Management

1.10.1 The major element of the council's Treasury Management function is the management on a 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 the clearance of monies overnight;
- Interest earned on investments should be maximised subject to the **security** of the funds being paramount;
- Interest paid on borrowing should be minimised;
- 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.

#### 1.11 Strategy for 2013/14

1.11.1 No significant issues have arisen during 2012/13 and none of the outcomes set out in this report give cause for concern. It is therefore recommended that Audit Committee that no amendments to the 2013/14 strategy are required at this time.

#### 1.12 Alternative Action and why not Recommended

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

#### 1.13 Impact on Corporate Objectives

1.13.1 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.

#### 1.14 Risk Management

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, Sector, and other market intelligence. If there is a possibility of a negative risk, the appropriate action is taken.

#### 1.15 Other Implications

1.15.1

- 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

X
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X
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1.16 Relevant Documents

1.16.1 Appendices

- Appendix A - List of Investments
- Appendix B - Prudential Indicators

**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: .....

.....



MAIDSTONE BOROUGH COUNCIL  
INVESTMENTS AS AT 31 MARCH 2013

Type of Investment/Deposit	Counterparty	Issue Date	Maturity Date	Amount Invested	Current Interest Rate
Call account	Royal Bank of Scotland			£5,520,000	0.9000
Fixed Term Deposit	Coventry BS	01/02/2013	03/06/2013	£1,000,000	0.4200
Fixed Term Deposit	Lloyds TSB Bank	23/07/2012	04/07/2013	£3,000,000	3.0000
Fixed Term Deposit	Skipton BS	15/01/2013	15/07/2013	£1,000,000	0.6500
Fixed Term Deposit	Skipton BS	29/01/2013	29/07/2013	£1,000,000	0.6500
Fixed Term Deposit	Lloyds TSB Bank	10/08/2012	12/08/2013	£2,000,000	2.8500
	<b>Total</b>			<b>£13,520,000</b>	

Credit Limits	
Maximum Deposit	Suggested Term
<b>£8,000,000</b>	<b>1yr</b>
<b>£2,000,000</b>	<b>3mnths</b>
<b>£8,000,000</b>	<b>1yr</b>
<b>£2,000,000</b>	<b>3mnths</b>
<b>£2,000,000</b>	<b>3mnths</b>
<b>£8,000,000</b>	<b>1yr</b>

## PRUDENTIAL INDICATORS

### Ratio of Financing Costs to Net Revenue Stream

2011/12 Actual %	2012/13 Estimate %	2012/13 Actual %
-0.5	-0.2	-2.2

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 investment income only.

### Incremental Impact of Capital Investment Decisions on the Council Tax

	2011/12 Actual £,000	2012/13 Estimate £,000	2012/13 Actual £,000
iii) Additional Council Tax Required in £.p.	3.42	2.46	0.22

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

### Capital Expenditure

2011/12 Actual £,000	2012/13 Estimate £,000	2012/13 Actual £,000
7,581	4,626	5,008

Capital expenditure for financial year 2012/13

### Capital Financing Requirement

2011/12 Actual £,000	2012/13 Estimate £,000	2012/13 Actual £,000
-43	6,000	1,934

The CFR measures the underlying need to borrow (whether this will be with internal cash or external borrowing).

## Treasury Management Indicators

### Authorised Limit for External Debt

	2011/12 Actual £,000	2012/13 Estimate £,000	2012/13 Actual £,000
Borrowing	8,000	10,000	0
Other Long Term Liabilities	6,684	6,294	6,294
Total	14,684	16,294	6,294

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

	2011/12 Actual £,000	2012/13 Estimate £,000	2012/13 Actual £,000
Borrowing	4,000	6,000	0
Other Long Term Liabilities	6,684	6,294	6,294
Total	10,684	12,294	6,294

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

2011/12 Actual %	2012/13 Estimate %	2012/13 Actual %
99	100	93

This is the maximum amount of gross 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

### Upper Limit for Variable Interest Rate Exposure

2011/12 Actual %	2012/13 Estimate %	2012/13 Actual %
48	80	62

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

2011/12 Actual £,000	2012/13 Estimate £,000	2012/13 Actual £,000
3,000	3,000	2,000

This indicator is shows that the Council had invested £2m of its £3m core cash which was invested for 367 days.

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**15<sup>TH</sup> JULY 2013**

#### **REPORT OF THE HEAD OF FINANCE & RESOURCES**

<b>Report prepared by: Paul Holland (Senior Accountant)</b>
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#### **1 EXTERNAL AUDITOR'S AUDIT PLAN 2012/13**

##### **1.1 Issue for Decision**

1.1.1 To consider the External Auditor's Audit Plan for 2012/13 as attached at **Appendix A** to this report.

##### **1.2 Recommendation of the Head of Finance & Resources**

1.2.1 That Audit Committee note the content of the Audit Plan as attached at **Appendix A**.

##### **1.3 Reasons for Recommendation**

1.3.1 The External Auditor produces an annual audit plan for the audit of the financial statements and the work on reaching a Value for Money conclusion on this Council. For 2012/13 the audit will be undertaken by Grant Thornton, who successfully tendered for the provision of external audit services following the abolition of the Audit Commission.

1.3.2 The plan is risk based and developed following consideration of both local and national risks and the audit work completed to date.

1.3.3 The report identifies the significant risks that will be considered as part of the audit, along with a number of other risks.

1.3.4 The plan also outlines the results of the interim audit work that was carried out earlier in the year, and details the anticipated audit fee.

##### **1.4 Alternative Actions and Why Not Recommended**

1.4.1 The report covers the information provided by the External Auditor on his plans for the completion of part of his audit for 2012/13. It is appropriate that this committee receive this information at this time.

##### **1.5 Impact on Corporate Objectives**

1.5.1 The completion of the audit of the Statement of Accounts by the due date aids the Council's consideration of its achievement of corporate and

customer excellence.

1.6 Risk Management

1.6.1 This plan helps mitigate the risk of failure to meet the statutory deadlines for the annual Statement of Accounts and Value for Money opinion.

1.7 Other Implications

Financial	<input checked="" type="checkbox"/>
Staffing	<input type="checkbox"/>
Legal	<input type="checkbox"/>
Social Inclusion	<input type="checkbox"/>
Environmental/Sustainable Development	<input type="checkbox"/>
Community Safety	<input type="checkbox"/>
Human Rights Act	<input type="checkbox"/>
Procurement	<input type="checkbox"/>
Asset Management	<input type="checkbox"/>

1.7.1 The anticipated audit fee for 2012/13 is £84,000, covering the audit of the Statement of Accounts and Grant Certification work.

1.8 Relevant Documents

1.8.1 Appendices: **Appendix A** – External Auditor’s Audit Plan 2012/13

<b><u>NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED</u></b>			
Is this a Key Decision?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
If yes, when did it appear in the Forward Plan? _____			
Is this an Urgent Key Decision?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
<u>Reason for Urgency</u>			
Not applicable			



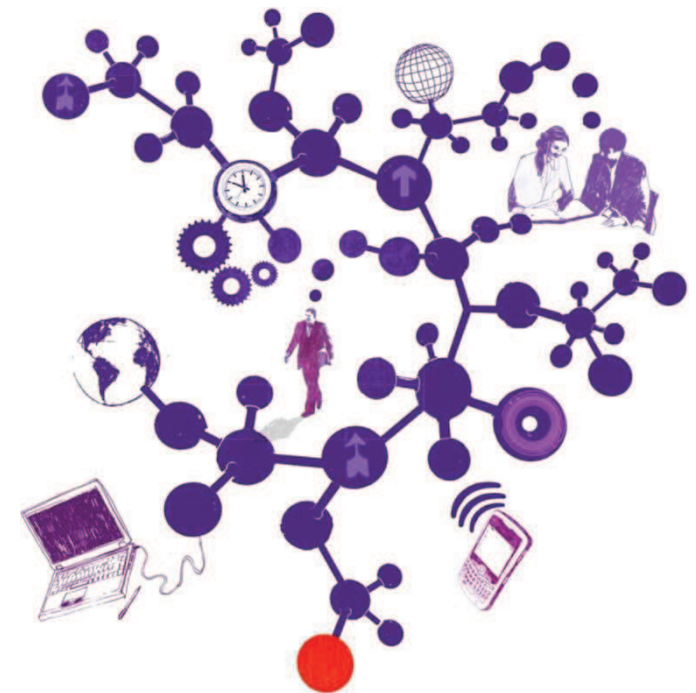
# The Audit Plan for Maidstone Borough Council

2013 **Year ended 31 March 2013**  
15<sup>th</sup> July, 2013

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

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# Contents

## Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Group scope and risk assessment
8. Results of interim work
9. Value for Money
10. Logistics and our team
11. Fees and independence
12. Communication of audit matters with those charged with governance

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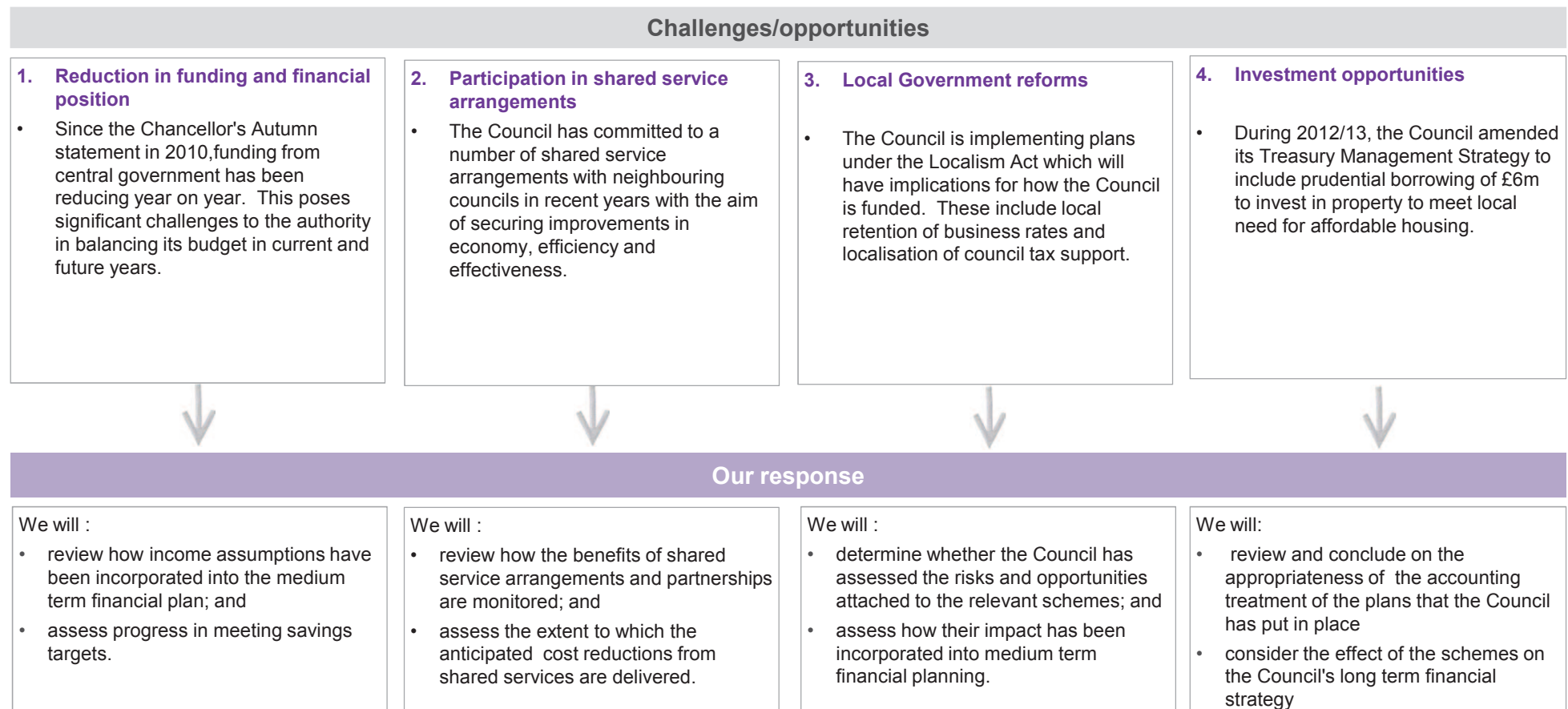
## Appendices

- A. Action plan

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

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# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

## Developments and other requirements

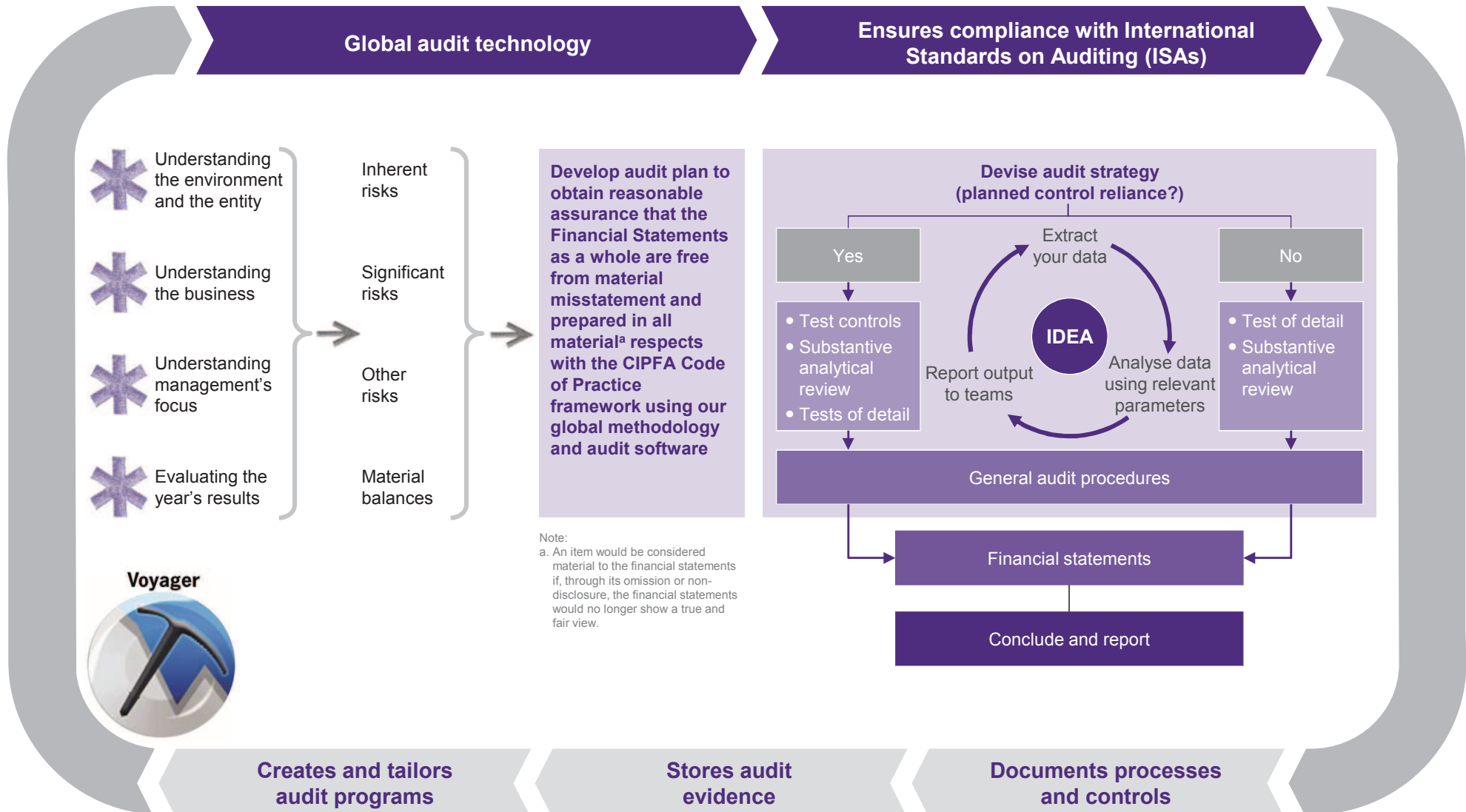
<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice</li> <li>• Recognition of grant conditions and income</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>• Local Government Finance Settlement 2012/13</li> <li>• Welfare Reform Act 2012</li> </ul>	<p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement (AGS)</li> <li>• Explanatory foreword</li> </ul>	<p><b>4. Pensions</b></p> <ul style="list-style-type: none"> <li>• Planning for the impact of 2013/14 changes to the Local Government Pension Scheme (LGPS)</li> </ul>	<p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>• Managing service provision with less resource</li> <li>• Progress against savings plans</li> </ul>	<p><b>6. Other requirements</b></p> <ul style="list-style-type: none"> <li>• The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>• The Council completes grant claims and returns on which audit certification is required</li> </ul>
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## Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> <li>• the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing</li> <li>• grant income is recognised in line with the correct accounting standard</li> </ul>	<ul style="list-style-type: none"> <li>• We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the arrangements the Council has in place for the production of the AGS</li> <li>• We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• We will discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan</li> <li>• We will undertake a review of Financial Resilience as part of our VFM conclusion</li> </ul>	<ul style="list-style-type: none"> <li>• We will carry out work on the WGA pack in accordance with requirements</li> <li>• We will certify grant claims and returns in accordance with Audit Commission requirements</li> </ul>
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# Our audit approach

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## An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

**Significant** – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

**Other** – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

**None** – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

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Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses not correct	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	Yes	Property, Plant and Equipment	Low	None		✓
Precepts and Levies	Yes	Council Tax	Low	None		✓

## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		×
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Impairment of investments	No	Investments	Low	None		×
Investment properties: Income expenditure, valuation, changes & gain on disposal	Yes	Property, Plant & Equipment	Low	None		✓
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
Revenue support grant & other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓

## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	✓
Heritage assets & Investment property	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	✓
Intangible assets	No	Intangible assets	Low	None		×
Investments (long & short term)	Yes	Investments	Low	None		✓
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	Yes	Property, Plant & Equipment	Low	None		✓
Inventories	No	Inventories	Low	None		×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓

## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provisions	Low	None		✓
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Identification of revenue recognition policies</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Testing of revenue recognition policies</li> <li>• Performance of attribute testing on material revenue streams</li> </ul>
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> <li>• Review of accounting estimates, judgments and decisions made by management</li> </ul>

## Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>Activity level controls were identified and a walkthrough of the system was completed during the interim visit in January 2013. No control deficiencies were identified as a result of this work, and we are satisfied that the system and controls are operating as designed.</li> </ul>	<ul style="list-style-type: none"> <li>Perform attribute testing on material expense streams</li> <li>Assess the method of allocating/apportioning expenses to functional categories for compliance with the Service Reporting Code of Practice</li> <li>Cut-off testing</li> </ul>
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> <li>Activity level controls were identified and a walkthrough of the system was completed during the interim visit in January 2013. No control deficiencies were identified as a result of this work, and we are satisfied that the system and controls are operating as designed.</li> </ul>	<ul style="list-style-type: none"> <li>Performance of attribute testing on payroll expenses</li> </ul>
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> <li>Activity level controls were identified and a walkthrough of the system was completed during the interim visit in January 2013. No control deficiencies were identified as a result of this work, and we are satisfied that the system and controls are operating as designed.</li> </ul>	<ul style="list-style-type: none"> <li>Substantive testing of a sample of benefit claims</li> <li>Reconcile benefit expenditure to the benefit subsidy claim and assess the impact of any significant differences</li> <li>Complete benefit software diagnostic tool, uprating checks and analytical review compared to prior year subsidy claim</li> </ul>
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> <li>We have written to the Council's Valuer to request details regarding professional qualifications, independence, terms of reference and compliance with professional standards. The response to this letter will be used to inform our judgement on the adequacy of valuations provided.</li> </ul>	<ul style="list-style-type: none"> <li>Review the appropriateness of valuations provided to the council by the external valuer</li> <li>Determine whether revaluations have been accounted for correctly</li> </ul>



# Results of interim audit work

## Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

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	<b>Work performed</b>	<b>Conclusion/ Summary</b>
<b>Internal audit</b>	We have reviewed internal audit's arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and the Council's governance framework.	We have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council. We will continue to work in collaboration with internal audit so that we can take assurance from their work in contributing to an effective internal control environment at the Council.
<b>Walkthrough testing</b>	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.

## Results of interim audit work (continued)

	<b>Work performed</b>	<b>Conclusion/ Summary</b>
<b>Review of information technology (IT) controls</b>	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will perform a follow up of the issues that have been raised in the previous year.	The review of the general IT control environment completed in May 2013 concluded that the entity level controls in this area are designed effectively. This work did not identify any significant issues to bring to the attention of the Committee.
<b>Journal entry controls</b>	At the time of writing, detailed testing of journal transactions recorded was in progress. This involves the extraction of any 'unusual' entries for further review. We will update the committee in due course with any issues which arise from this work.	Work is currently in progress and is due to be completed in July 2013. The outcome of this work will be reported to the Committee in September 2013.

# Value for Money

## Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

## 2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

217 We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

## Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources with tighter budget

## Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- review the medium term financial plan including the assumptions made;
- review 2012/13 financial performance; and
- assess progress against savings plans.

# Logistics and our team

## The audit cycle



Date	Activity
22/01/13	Planning meeting
28/01/13	Interim site work commences
08/07/13	Year end field work commences
15/07/13	The audit plan presented to Audit Committee
30/09/13	Audit findings clearance meeting
16/09/13	Audit Committee meeting to report our findings
25/09/13	Sign financial statements and VfM conclusion
28/10/13	Issue Annual Audit Letter

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## Our team

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**Ellie Dunnet**  
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 E Ellie.Dunnet@uk.gt.com

# Fees and independence

## Fees

	£
Council audit	£66,400
Grant certification	£17,600
<b>Total</b>	<b>£84,000</b>

## Fees for other services

Service	Fees £
None	Nil

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### Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan 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](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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# Agenda Item 16

## MAIDSTONE BOROUGH COUNCIL

### AUDIT COMMITTEE

15<sup>TH</sup> JULY 2013

### REPORT OF THE HEAD OF FINANCE & RESOURCES

Report prepared by: Paul Holland (Senior Accountant)
--

#### 1 AUDIT COMMITTEE PROGRESS REPORT – JULY 2013

##### 1.1 Issue for Decision

1.1.1 To consider the report of the External Auditor on the progress to date against the 2012/13 audit plan. The External Auditor will be present at the meeting to answer any questions.

##### 1.2 Recommendation of the Head of Finance & Resources

1.2.1 That Audit Committee notes the External Auditor's progress report attached as **Appendix A**.

##### 1.3 Reasons for Recommendation

1.3.1 The External Auditor produces an annual audit plan and monitors its work for each local authority against that plan. Details of key dates in the plan are given in the attached progress report in its **Appendix A**. For 2012/13 the audit will be undertaken by Grant Thornton, who successfully tendered for the provision of external audit services following the abolition of the Audit Commission.

1.3.2 The External Auditor has raised no concerns with the Council in their report on progress to date. In general the progress of the External Auditor is in line with the original Audit Plan.

1.3.3 The report outlines a number of emerging issues and developments that the Committee may wish to consider.

##### 1.4 Alternative Actions and Why Not Recommended

1.4.1 Due to the responsibilities of both the External Auditor and this Committee a progress report of this sort is appropriate for consideration. To not consider the report would weaken the control over the process that is available to the Committee.



1.5 Impact on Corporate Objectives

1.5.1 The External Auditor's Audit Plan is focusing on the Auditor's opinion being issued by the Statutory deadline of 30<sup>th</sup> September 2012.

1.6 Risk Management

1.6.1 This report helps this Committee's governance responsibilities and aids the mitigation of risk of failure to produce the statutory accounts by the due date through the provision of timely warnings regarding possible issues.

1.7 Other Implications

Financial	<input type="checkbox"/>
Staffing	<input type="checkbox"/>
Legal	<input type="checkbox"/>
Social Inclusion	<input type="checkbox"/>
Environmental/Sustainable Development	<input type="checkbox"/>
Community Safety	<input type="checkbox"/>
Human Rights Act	<input type="checkbox"/>
Procurement	<input type="checkbox"/>
Asset Management	<input type="checkbox"/>

1.8 Relevant Documents

1.8.1 Appendices: Appendix A – Audit Committee Progress Report

<b><u>NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED</u></b>			
Is this a Key Decision?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
If yes, when did it appear in the Forward Plan? _____			
Is this an Urgent Key Decision?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
<u>Reason for Urgency</u>			
Not applicable			

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

# Audit Committee Update for Maidstone Borough Council

**Year ended 31<sup>st</sup> March 2013**

15<sup>th</sup> July 2013

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

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Local government guidance	10

## Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a district council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Darren Wells Engagement Lead T 01293 554120 M 07880 456152 [darren.j.wells@uk.gt.com](mailto:darren.j.wells@uk.gt.com)  
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## Progress at 15<sup>th</sup> July 2013

Work	Planned date	Complete?	Comments
<p><b>2012-13 Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.</p>	By 31/03/13	Yes	On the agenda for the 15/07/13 Audit Committee meeting
<p><b>Interim accounts audit</b> Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• Early work on the Value for Money conclusion.</li> </ul>	By 31/03/13	Yes	<p>The audit team was on site in March and completed the interim accounts audit. There were no matters arising that we need to bring to your attention at this stage. The results of this audit will inform our testing strategy for the final accounts audit in July</p> <p>We met with finance officers in March as planned to explore ways of improving the accounts preparation and audit processes. This was a very successful opportunity to discuss accounting issues at an early stage, and we intend to repeat the meeting in future years.</p> <p>Our annual review of the IT control environment has been completed in May, This did not identify any areas of concern.</p>
<p><b>2012-13 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2012-13 financial statements</li> <li>• proposed opinion on the Council 's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	By 30/09/13	Not started	The audit team will be on site from 08/07/13 to 26/07/13. Our Annual Governance Report, incorporating our opinion on the accounts and our value for money conclusion will be reported to the September Audit Committee meeting.

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## Progress at 15<sup>th</sup> July 2013

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2012/13 VFM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• A review of the Council's medium and longer term financial plans and budget strategy;</li> <li>• A benchmarking exercise comparing the Council's financial performance with similar authorities;</li> <li>• An overall assessment of the Council's financial resilience; and</li> <li>• A review of performance monitoring arrangements and service delivery against the Council's 2012/13 targets</li> </ul>	By 30/09/13	In progress	A Financial Resilience Report will be presented to the September Audit Committee meeting.

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## Emerging issues and developments

### Accounting and audit issues

#### LAAP Bulletin 96: Closure of the 2012/13 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued [LAAP Bulletin 96](#). The bulletin provides further guidance and clarification to complement CIPFA's 2012/13 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- a reminder that authorities should tailor CIPFA's example financial statements to meet their own reporting needs in order to give a true and fair view of their own financial position and performance
- the need for billing and precepting authorities to disclose their share of non-domestic rate appeals liabilities that transferred to them on 1 April 2013
- accounting for the transfer of public health reform in 2013/14.

Challenge question:

- Has your Head of Finance reviewed the guidance and assessed the potential impact for your financial statements?



## Emerging issues and developments

### Accounting and audit issues

#### Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2013/14. The main changes to the Code include:

- amendments for the requirements of the localisation of business rates in England
- amendments to how 'other comprehensive income' is presented in the Comprehensive Income and Expenditure Statement. These changes follow the June 2011 amendments to IAS 1 Presentation of Financial Statements.
- amendments to how authorities should account for the cost of employees. This is as a result of the June 2011 amendments to IAS 19 Employee Benefits and include amendments to the classification, recognition, measurement and disclosure of local authority pension costs. This is accounted for as a prior period adjustment which means that the figures for previous years will need to be restated.
- clarifications and improvements of the Code as a result of the CIPFA/LASAAC post-implementation review of IFRS on issues such as:
  - the recognition and measurement of property, plant and equipment – in particular, paragraph 4.1.2.35 of the Code now requires items within a class of property, plant and equipment to be revalued simultaneously. The Code does permit a class of assets to be revalued on a rolling basis provided the revaluation is completed within a short period and provided the revaluations are kept up to date.
  - leases and lease-type arrangements (for example where lease rentals are charged at peppercorn rents)
  - service concession (PFI/PPP) arrangements in relation to assets under construction and intangible assets
  - the recognition of non-current assets held for sale

The Code also notes that guidance on the adoption of IFRS 13 Fair Value accounting has been deferred to the 2014/15 Code.

Challenge questions:

- Is your Head of Finance aware of the changes to the 2013/14 Code and assessed the potential impact?
- In particular, has your Head of Finance consulted:
  - your actuary to ensure you will have the information you need to restate amounts relating to pensions from previous years
  - your valuer to ensure that your revaluation programme complies with the new requirements for property, plant and equipment?

## Emerging issues and developments

### Accounting and audit issues

#### Internal audit – practice case studies

The NAO and the Institute of Internal Auditors have released a [set of case studies](#), available on the NAO website, illustrating some of the key principles of effective internal auditing, taken from a range of public and private sector organisations (including British Telecom, Department for Work and Pensions, EDF). These cover the following areas:

- applying internal audit resources
- scope of internal audit
- auditing projects
- the relationship with the audit committee
- risk-based internal audit
- evaluating internal audit

Examples of the practical advice these case studies provide are:

- 'ensure that the internal audit function has the right development practices and the right mix of people'
- 'internal audit must check its own performance'
- 'look at the range and depth of assurance that is being provided to management from other assurance providers within the organisation: this will reduce the duplication and free up resources to provide deeper assurance in other areas'
- 'make sure that internal audit's work is aligned to management's view of risk: the function may be focussing on the wrong issues if it does not understand management's risk priorities'
- 'review whether senior management and the business share the same view of risk – highlight where differences occur to ensure that the right risks and controls are targeted in the audit plan'
- 'consider carrying out a benchmarking review with a similar sized organisation in the same industry sector to compare and contrast approaches to internal audit and resourcing'

Challenge question:

- How can you drive more organisational value from internal audit?

## Emerging issues and developments

### Local government guidance

#### 2010/11 Whole of Government Accounts

The following reports have been published on the audited 2010/11 Whole of Government Accounts (WGA):

- Public Accounts Committee (PAC) issued its [2010/11 WGA report](#) - PAC has recommended that HM Treasury should do more to use WGA accounts to inform decision making and also drew attention to the need for the preparation and audit of WGA to be timelier.
- DCLG published an unaudited consolidated account for [English Local Government 2010/11](#) - the information is high-level, focussing on the consolidated statement of revenue and expenditure, the consolidated statement of financial position and the consolidated statement of changes in taxpayers' equity. There is no breakdown of line items and no comment on cash flows, commitments and off balance sheet liabilities. However, the document does provide links to more detailed local government finance statistics.

Challenge question:

- Has your Head of Finance considered these reports and any lessons for the authority?
- Has your Head of Finance produced a robust and adequately resourced timetable for the production and submission of 2012/13 WGA returns?

#### Governance statements

The National Audit Office has published '[Fact Sheet: Governance Statements: good practice observations from our audits](#)' providing insight and commentary on the first year of Governance Statement reporting observations on good practice “challenge questions” for those whose role it is to oversee and scrutinise an organisation’s Governance Statement.

Challenge questions:

- How do you plan to make your Annual Governance Statement more transparent and relevant to your authority?
- Have you used the challenge questions in the fact sheet to help inform your review of the Annual Governance Statement?

## Emerging issues and developments

### Local government guidance

#### Openness and transparency on personal interests - A guide for councillors

In March, DCLG published ['Openness and transparency on personal interests - A guide for councillors'](#).

This guide provides guidance to councillors about how to be open and transparent about their personal interests now that new standards arrangements have been introduced by the Localism Act 2011.

Challenge question:

- What has your authority done to improve awareness of openness and transparency requirements for councillors?



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# Agenda Item 17

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**15<sup>TH</sup> JULY 2013**

### **REPORT OF HEAD OF FINANCE & RESOURCES**

**Report prepared by Paul Holland (Senior Accountant)**

#### **1. EXTERNAL AUDIT FEES 2013/14**

##### 1.1 Issue for Decision

1.1.1 To consider the proposed level of external audit fees for the 2013/14 audit.

##### 1.2 Recommendation of Head of Finance & Resources

1.2.1 That the Committee notes the proposed audit fee of £66,400 for the 2013/14 audit.

##### 1.3 Reasons for Recommendation

1.3.1 The Audit Commission has now ceased the undertaking of public sector external audits and following a tendering process Grant Thornton have now been appointed as the Council's external auditors for the next five years.

1.3.2 The Main Audit fee for 2013/14 has been set at £66,400, which is no change from the fee for 2012/13. In addition the estimated fee for Grant Certification work has been set at £17,300. A copy of the letter advising of the fees is attached as Appendix A.

##### 1.4 Alternative Action and why not Recommended

1.4.1 There are no alternative actions. The Council is required to have its Statement of Accounts externally audited.

##### 1.5 Impact on Corporate Objectives

1.5.1 There is no specific impact on Corporate Objectives.

1.6 Risk Management

1.6.1 There is the risk of additional fees being incurred should the external audit process identify any extra work that needs to be done, particularly given that the audit fee has been reduced substantially, meaning that the external auditors will be under pressure to control their own costs. Following the issues identified that arose during the external audit for 2011/12 officers will be working closely with Grant Thornton to ensure that the Council minimises the risk of incurring additional fees.

1.7 Other Implications

1.7.1

1.	Financial	X
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	

1.7.2 The financial implications are detailed in the report.

**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: .....

.....



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8 April 2013

Dear Alison

### **Planned audit fee for 2013/14**

The Audit Commission has set its proposed work programme and scales of fees for 2013/14. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

### **Scale fee**

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Council's scale fee for 2013/14 has been set by the Audit Commission at £66,400 which compares to the audit fee of £66,400 for 2012/13.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at [www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-work-programme](http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-work-programme).

The audit planning process for 2013/14, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### **Scope of the audit fee**

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

### **Value for Money conclusion**

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VfM conclusion and a separate report of our findings will be provided.

### **Certification of grant claims and returns**

The Council's composite indicative grant certification fee has been set by the Audit Commission at £17,300 which compares to £17,600 for 2012/13. . This assumes that no additional testing will be required.

### **Billing schedule**

Fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
September 2013	16,600.00
December 2013	16,600.00
March 2014	16,600.00
June 2014	16,600.00
<b>Grant Certification</b>	
June 2014	17,300.00
<b>Total</b>	<b>83,700.00</b>

### **Outline audit timetable**

We will undertake our audit planning and interim audit procedures in Autumn 2013. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit, work on the VfM conclusion and work on the whole of government accounts return will be completed in September 2014.

<b>Phase of work</b>	<b>Timing</b>	<b>Outputs</b>	<b>Comments</b>
Audit planning and interim audit	Nov 2013 – Mar 2014	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to Sept 2014	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	Jan to Sept 2014	Audit Findings (Report to those charged with governance)	As above
Financial resilience	Jan to Sept 2014	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2014	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2014	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2014	Grant certification report	A report summarising the findings of our grant certification work

### **Our team**

The key members of the audit team for 2013/14 are:

	<b>Name</b>	<b>Phone Number</b>	<b>E-mail</b>
Engagement Lead	Darren Wells	01293 554120	darren.j.wells@uk.gt.com
Engagement Manager	Steve Golding	01293 554069	steve.h.golding@uk.gt.com
Audit Executive	Ellie Dunnet	01293 554058	ellie.dunnet@uk.gt.com

### **Additional work**

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner ([paul.dossett@uk.gt.com](mailto:paul.dossett@uk.gt.com)).

Yours sincerely

Darren Wells  
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For Grant Thornton UK LLP

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