

AGENDA

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING



Date: Monday 23 November 2015

Time: 6.30 p.m.

Venue: Town Hall, High Street,
Maidstone

Membership:

Councillors Butcher (Parish Representative),
Butler, Clark, Daley, Garland,
Mrs Gooch, McLoughlin (Chairman),
Perry, Mrs Riden (Parish
Representative), Ross and Vizzard

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1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members
4. Disclosures by Members and Officers

Continued Over/:

Issued on Friday 13 November 2015

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

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

5.	Disclosures of Lobbying	
6.	To consider whether any items should be taken in private because of the possible disclosure of exempt information	
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MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 21 SEPTEMBER 2015

Present: Councillor McLoughlin (Chairman) and Councillors Daley, Garland, Mrs Gooch, Perry, Mrs Riden (Parish Representative) and Round

Also Present: Councillors Mrs Blackmore and Sargeant
Keith Hosea and Darren Wells of Grant Thornton (External Auditor)

21. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Butcher (Parish Representative), Butler and Clark. In addition, Councillor Vizzard was on his way to the meeting, but had been delayed.

In the event, Councillor Vizzard arrived after the meeting was closed by the Chairman.

22. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Round was substituting for Councillor Butler.

23. NOTIFICATION OF VISITING MEMBERS

Councillor Mrs Blackmore indicated her possible wish to speak on both reports on the agenda.

Councillor Sargeant attended the meeting as an observer.

24. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

25. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

26. EXEMPT ITEMS

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

27. MINUTES OF THE MEETING HELD ON 20 JULY 2015

RESOLVED: That the Minutes of the meeting held on 20 July 2015 be approved as a correct record and signed.

28. AUDIT, GOVERNANCE & STANDARDS COMMITTEE MEMBER BRIEFINGS

The Head of Audit Partnership submitted a report setting out a proposed programme of Member briefings aligned to the Committee's wider terms of reference. It was noted that:

- The themes and topics within the briefing programme coincided with significant reports and decisions mandated to the Committee through its annual work programme and the briefings were designed to run alongside and not replace any more in-depth or detailed training sessions that might be offered to or requested by Members in helping them to fulfil their duties.
- There were no additional costs associated with the proposed programme as the briefings would be arranged in-house, drawing on the expertise and professional experience of the Officers. However, the opportunity could be taken to draw in external contributions, and the Council's External Auditor, Grant Thornton, was willing to be involved. Any briefings or proposed briefings that required additional expense would be considered separately on a case by case basis, but at present no such sessions were proposed.

In response to questions by Members, the Head of Audit Partnership explained that it was proposed that the briefings take the same format as that established in 2014/15 with sessions being held immediately prior to meetings of the Committee and lasting approximately 45 minutes, with 20-30 minutes for the presentation followed by questions/discussion. If Members wanted more in-depth knowledge of particular topics, then separate training sessions could be arranged.

The Committee felt that the proposed programme represented a comprehensive package to address Members' development needs.

RESOLVED:

1. That the Member briefing programme set out in Appendix I to the report of the Head of Audit Partnership, including the proposed schedule of briefings for 2015/16, be approved.
2. That the nature of and topics contained in the Member briefing programme be reviewed and refreshed as required.
3. That the Head of Audit Partnership be given delegated authority, in consultation with the Chairman of the Committee, to finalise the details of the format, content and timing of individual briefings having regard to any suggestions made by other Members.

Note: Councillors Garland and Mrs Riden (Parish Representative) entered the meeting during consideration of this report.

29. EXTERNAL AUDITOR'S AUDIT FINDINGS REPORT 2014/15

The Senior Accountant (Client) introduced the report of the Head of Finance and Resources setting out the audited Statement of Accounts for 2014/15 for approval by the Committee in accordance with the amended Accounts and Audit Regulations 2011, the External Auditor's Audit Findings Report and the Letter of Representation written by the Council to the External Auditor. It was noted that:

- None of the amendments to the Accounts identified during the audit process had affected the Council's General Fund balance as at 31 March 2015. A number of other minor changes had also been made to improve the presentation and clarity of the Statement of Accounts.
- The Audit Findings Report also included a review of Value for Money, and concluded that in all significant respects the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources for the year ending 31 March 2015.
- The External Auditor was required to provide the Value for Money conclusion based on two criteria specified by the Audit Commission.
- To this end, a review had been undertaken of six risk areas to assess the Council's performance against the Audit Commission's criteria. The assessment of each risk area was summarised using a red, amber or green rating based on the following definitions:

Green - Adequate arrangements
Amber - Adequate arrangements with areas for development
Red - Inadequate arrangements
- Overall, the Council was rated as green across all areas reviewed. Three residual risks were identified and rated as amber. These risks relating to slippage in the Capital Programme, strategic financial planning and the effectiveness of services being delivered through the Mid-Kent Partnership would be revisited as part of the audit planning work for 2015/16. Recommendations relating to these risks were included in the Action Plan, attached as Appendix A to the Audit Findings Report, together with the Management response.
- The External Auditor intended to issue an unqualified opinion on the 2014/15 Statement of Accounts and an unqualified Value for Money conclusion.

In response to questions by Members, the Officers/representatives of the External Auditor explained that:

- In the past, in the main, slippage had occurred in the Capital Programme due to factors outside the Council's control. The Capital Programme for the last few years had relied on programmes of work such as the programme of work for play areas, and sometimes projects within those programmes had not been specified as clearly as they could have been and alternative schemes were not prioritised effectively resulting in slippage. Discussions were taking place to identify a more robust process for prioritising capital projects and delivering them within the planned timeframe to ensure the use of resources to the best effect.
- The Council had agreed some years ago to set aside New Homes Bonus funding to part fund the implementation of the Infrastructure Delivery Plan associated with the Local Plan, but decisions had yet to be made as to where the schemes would be delivered. The Council had also agreed to resource some property purchases with this funding not only to provide a solution to particular problems, but to provide revenue savings and an opportunity to generate cash flows for the Council to invest and improve its asset base. These assets could be converted back to capital receipts if the implementation of the Infrastructure Delivery Plan became a higher priority.
- With regard to the Collection Fund Statement, it was the responsibility of the Council as the Billing Authority to collect revenue from Council Tax and Non-Domestic (Business) Rates, deal with immediate cash flows and distribute the income to the relevant precepting bodies and the Government. Surpluses/deficits declared by the Billing Authority in relation to the Collection Fund were apportioned to the relevant precepting bodies and the Government in the subsequent financial year in their respective proportions. The collection rate in terms of Council Tax was almost 99%, and outstanding amounts were only written off in exceptional circumstances.
- The External Auditor had made a recommendation to improve the clarity of the Council Tax and Business Rates accounting policies having regard to good practice observed in other audited bodies, and this had been reflected in the financial statements.
- Whilst the notes to the Accounts stated that assets under construction were included in the Balance Sheet at depreciated historical cost, this was unlikely to be the case as these assets would normally transfer to the correct category on the Balance Sheet once constructed, i.e. within the year.
- During 2009/10, the Council entered into an agreement with Serco, the managing contractor of the Leisure Centre, to undertake a major refurbishment of the Centre. Under the terms of the agreement, Serco had initially funded the cost of the works through a loan, and the Council was now repaying this loan by equal monthly instalments over a 15 year term. Fixed assets were valued on a rolling five year basis so the improvements undertaken by the managing contractor of the Leisure Centre would be reflected in those valuations. The

valuation of the Leisure Centre had increased, and the improvements which had been undertaken were a factor.

- The audit had been conducted in line with the Audit Plan dated 30 March 2015. The draft Accounts had been received by the External Auditor in June, the audit had commenced early in July and most of the work had been completed by the end of July. The audit was now substantially complete subject to discussion of the findings with the Committee and finalisation of certain issues to enable the External Auditor to respond to requirements set down in the International Standard on Auditing before closure.
- In terms of adjusted misstatements, debtors and creditors in respect of the Collection Fund were both overstated due to an entry being processed incorrectly in the working papers as a result of a misunderstanding. There had been no impact other than in respect of the Collection Fund.
- For 2014/15, the Council entered into a pooled arrangement with Kent County Council in order to minimise the levy payment due to the Government and thereby maximise the local retention of locally generated business rates. The table on page 36 of the Accounts showed the actual taxation and non-specific grant incomes, but not the gain from the pooled arrangement. The gain over the baseline figure should show in the earmarked reserves because it had been agreed that it should be set aside specifically for economic development purposes. Precise details would be circulated to the Chairman who had raised the issue.
- In terms of strategic financial planning, the Medium Term Financial Strategy was a five year plan looking at (a) the resources likely to be received from the Government, Council Tax and income which could be generated and (b) the costs and growth in costs, and identifying the budget gap (£3.8m over the next five years). In 2010, the Council had agreed a comprehensive strategy to bridge the savings gap over the five year period to 2015, but the situation from 2016/17 onwards was less clear. The Commercialisation Strategy would deliver savings, and the Service Committees had started to look at options to meet the gap. To date ideas had been put forward which would cover two thirds of the £3.8m required. A risk assessment of the Budget Strategy would be reported to the Audit, Governance and Standards Committee in January 2016.
- The External Auditor had been discussing with Officers how they could demonstrate the effectiveness and the value for money of the services being delivered by the Mid-Kent Improvement Partnership, and it had been understood that a review would be undertaken by the Officers. The summary findings reflected that the assessment of the effectiveness of the shared services which was to have been undertaken had been delayed. The review of the effectiveness of the shared services should address both the Council's and local residents' perspectives. A savings review of the services being delivered

through the Mid-Kent Improvement Partnership had also been delayed until 2015/16. These reviews would have regard to the drivers for entering into the shared services (greater resilience or financial) and to changes in the parameters; for example, in the case of Planning Support, the increase in the volume and complexity of the applications being processed since the decision was made to enter into the shared service.

The Committee indicated that it wished to receive a report on the savings delivered to date through the shared service arrangements compared to targets and an update on the progress being made on the review of the effectiveness of the shared services.

RESOLVED:

1. That the External Auditor's Audit Findings Report, attached as Appendix A to the report of the Head of Finance and Resources, be noted and that the response to the recommendations contained in the Action Plan be agreed.
2. That the audited Statement of Accounts for 2014/15, attached as Appendix B to the report of the Head of Finance and Resources, be approved.
3. That the Council's Letter of Representation to the External Auditor, attached as Appendix C to the report of the Head of Finance and Resources, be approved.
4. That the Head of Finance and Resources be requested to submit a report to a future meeting of the Committee on the savings delivered to date through the shared service arrangements compared to targets, together with an update on the progress being made on the review of the effectiveness of the shared services.

30. COMMITTEE WORK PROGRAMME 2015/16

At the request of the Chairman, the Head of Audit Partnership undertook to submit a report to the next meeting of the Committee reviewing the Council's Whistleblowing Policy.

31. DURATION OF MEETING

6.30 p.m. to 7.40 p.m.

Audit Governance & Standards Committee

**23 November
2015**

Is the final decision on the recommendations in this report to be made at this meeting?

N/A

Complaints received under the Members Code of Conduct

Final Decision-Maker	For information
Lead Director or Head of Service	John Scarborough – Head of Legal Partnership
Lead Officer and Report Author	Libby McCutcheon – Senior Solicitor – Corporate Governance
Classification	Non-exempt
Wards affected	All

This report makes the following recommendations to the final decision-maker:

For information only

This report relates to the following corporate values:

- **Responsibility** – taking ownership for actions & making the right choices and decisions that lead to a satisfactory outcome for us all.
- **Integrity** – building trust and honesty & being open and transparent in everything we do.

Timetable

<i>Meeting</i>	<i>Date</i>
Audit Standards and Governance Committee to note the report.	23 November 2015

Complaints received under the Members Code of Conduct Report

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report provides an update on complaints received under the Member's Code of Conduct in the period ending 11 November 2015.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 It is a requirement under the Localism Act 2011 that all Councils adopt a Code of Conduct and that the Code adopted must be based upon the Nolan Principles of Conduct in Public Life. The current Members' Code of Conduct ("the Code") for Maidstone Borough Council is set out in the new Constitution adopted in May 2015 (and is unchanged from the previous Code of Conduct.)
 - 2.2 At the same Full Council meeting the Maidstone Borough Council also adopted arrangements for dealing with complaints under the Code about Maidstone Borough Councillors..
 - 2.3 The Localism Act 2011 requirement to adopt a Code of Conduct also applied to all the Parish Councils in the Maidstone area. Consequently, all the Parish Councils in the Maidstone area also adopted their own Codes of Conduct.
 - 2.4 Under the Localism Act 2011 Maidstone Borough Council is responsible for dealing with any complaints made under the various Codes of Conduct throughout the Maidstone area. Thus the Borough Council is responsible for dealing with any complaints affecting Members of, not only the Borough Council, but also all the Parish Councils in the Maidstone Borough.
 - 2.5 The arrangements for dealing with complaints varies slightly according to which process the relevant Parish Council adopted. Full details of each complaints procedure is available on each Councils website.
 - 2.6 The Borough Council have resolved that oversight of any Code of Conduct complaints falls under the Audit Standards and Governance Committee.
-

3. UPDATE ON COMPLAINTS RECEIVED

- 3.1 This is the second update by Monitoring Officer upon the number of complaints received under the Code of Conduct. The update is set out so that the names of the complainant and the Member complained about are both kept confidential. The reason for this is that the Localism Act 2011 repealed the previous statutory process for dealing with complaints whereby decisions including names would

be published. In the absence of that statutory process, complaints must be dealt with in accordance with the Data Protection Act 1998 which means such data must be kept confidential.

- 3.2 Since my last report to this Committee on 20 July 2015, there have been no new complaints.
- 3.3 There were two complaints in existence at 20 July 2015. Following consultation with the Independent Person the Monitoring Officer found that there had been no breach of the Code of Conduct, however recommendations have been made to the Parish Council that training is arranged for all members to cover management of meetings and conduct of the Council.
- 3.4 The new Constitution provides for a Hearings Sub-Committee (part 2.1 p26) to meet to consider any complaint which remains valid after investigation and consideration by the Monitoring Officer in consultation (as required) by the Independent Person. The Hearings Sub-Committee has not yet been required to meet.

4. PREFERRED OPTION

- 4.1 To note the update upon complaints under the Member's Code of Conduct

5. CONSULTATION

- 5.1 Members of the Audit Standards and Governance Committee and the independent person in accordance with the relevant complaints procedure will be consulted with on individual complaints as and when necessary.

6. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	Supporting Corporate Values of Responsibility and Integrity	Head of Service or Manager
Risk Management	An effective complaints procedure is part of an effective system of governance	Head of Service or Manager
Financial	If the complaint proceeds to an investigation, which may be carried out by an external person, the costs for this work has to be met by the Borough Council.	Section 151 Officer & Finance Team
Staffing	The complaints procedure is dealt within the remit of the Monitoring Officer with input from other service units as required.	Team Leader Corporate Governance

Legal	This is a requirement of the Localism Act 2011	Team Leader Corporate Governance
Equality Impact Needs Assessment	Any potential to disadvantage or discriminate different groups within the community should be overcome within the adopted complaints procedures.	Team Leader Corporate Governance
Environmental/ Sustainable Development	n/a	
Community Safety	n/a	
Human Rights Act	All complaints are dealt with in the context of the Human Rights Act	Team Leader Corporate Governance
Procurement	n/a	
Asset Management	n/a	

7. REPORT APPENDICES & BACKGROUND PAPERS

None

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

23 November 2015

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Annual Governance Statement 2015/16, Action Plan Update

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service	Angela Woodhouse, Head of Policy and Communications
Lead Officer and Report Author	Angela Woodhouse
Classification	Public
Wards affected	

This report makes the following recommendations to this Committee:

1. The updated annual governance action plan be noted
2. Further action if required be identified and agreed

This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all
- Securing a successful economy for Maidstone Borough

Timetable

Meeting	Date
Audit, Governance and Standards Committee	23 November 2015

Annual Governance Statement 2015/16, Action Plan Update

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 In July 2015 the committee approved the Annual Governance Statement and Action Plan. The purpose of this report is to provide the committee with an updated action plan.
 - 1.2 The report provides an update on the action that has been taken to improve governance.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 The action plan attached at Appendix A was produced and published with the Annual Governance Statement.
 - 2.2 The actions arose from areas identified in the governance statement as requiring additional action and assurance.
-

3. AVAILABLE OPTIONS

- 3.1 The committee could decide not to consider the action plan. Considering the action plan is however a key part of the committee's governance remit.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The committee is asked to consider the updated action plan attached at Appendix A, and make recommendations for further action as appropriate.

Areas of Action

- 4.2 A number of areas are covered by the action plan including:
 - Information Management
 - Corporate Governance
 - Strategic Plan
 - Resident Survey
 - Risk Register
 - Planning Support Shared Service
 - Committee System
 - Audit Reviews
 - Mayor Appointment Process
- 4.3 Action has been taken in all areas. The Data Protection and Emergency Planning audit reviews following action are now no longer rated as weak.

Teams across the council have been involved in developing the corporate risk register led by the Audit Committee. Common themes have been identified across services relating to financial and staffing pressures, there will be Senior Officers and Councillors workshop in December. The decision for Tunbridge Wells to leave the planning support shared service was taken on 5 November 2015. Arrangements are now in place to manage this process. The Democracy Committee will conduct a formal review of the committee system. The review of the Mayor appointment process has been conducted and a report will be coming to the Democracy Committee.

- 4.4 The resident survey includes budget consultation as well as consultation on the top issues for our residents, trust in the council and value for money. The results will inform the update of our Strategic Plan and new Medium term Financial Strategy.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The updated action plan has been reported to and informed by the Corporate Governance Group. Councillor consultation is via this committee.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The Annual Governance Statement and action plan are published on the Council's website and communicated to Corporate Leadership team

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	High standards of corporate governance are integral to achieving our corporate priorities.	Head of Policy and Communications
Risk Management	The annual governance statement has identified	Head of Policy and Communications
Financial	Good governance is integral to good financial arrangements	Section 151 Officer
Staffing	The action plan includes ensuring staff are aware of our priorities.	[Head of Service]
Legal	Good governance arrangements are essential in ensuring robust and lawful decision-making and therefore minimising the risk of legal challenge. The action plan focuses on specific area to ensure a programme of continuous	Team Leader Corporate Governance

	improvement.	
Equality Impact Needs Assessment	No implications from this action plan	Policy & Information Manager
Environmental/Sustainable Development	No implications from this action plan	Head of Policy and Communications
Community Safety	No implications from this action plan	Head of Policy and Communications
Human Rights Act	No implications from this action plan	Head of Policy and Communications
Procurement	No implications from this action plan	Head of Policy and Communications
Asset Management	No implications from this action plan	Head of Policy and Communications

8. REPORT APPENDICES

Appendix A, Annual Governance Statement Action Plan 2015-16

9. BACKGROUND PAPERS

Annual Governance Statement 2014-15

Actions for 2015-16 as identified in the current Annual Governance Statement

Governance Issue	Action Update	By When	By Whom
<p>Implementation of the Information Management Action Plan</p>	<p>The Information Management Strategy has been to Leadership Team including an action plan and resources required.</p> <p>The Information Management Group met in November to consider and agree the communications plan for information and any matters relating to information security.</p> <p>A training programme is being developed with Learning and Development</p>	<p>Actions completed as timetabled throughout 2015-16</p>	<p>Head of Policy and Communications</p>
<p>Embedding Corporate Governance and Ensuring Best Practice is identified</p>	<p>The Corporate Governance Working Group will continue.</p> <p>The Corporate Governance Working Group has met as scheduled</p>	<p>Quarterly meetings with updates to Audit Committee and CLT every six months.</p>	<p>Head of Policy and Communications</p>
<p>Communication and Engagement of the New Strategic Plan</p>	<p>Strategy and Annual Action Plan approved Engagement Plan in place for Employees.</p> <p>Action plan:</p> <p>Completed work includes the annual report and "you said we did" information in Borough Update</p>	<p>Action plan covers 2015-16</p>	<p>Head of Policy and Communications</p> <p>Learning and Development Manager</p>

Governance Issue	Action Update	By When	By Whom
	<p>Housing and Communities have been working with Involve (formerly Voluntary Action Maidstone) on improving engagement with hard to reach groups</p> <p>A new social media policy has been produced and circulated to staff</p> <p>Information on the new committee system has been provided on our website and in Borough Update</p> <p>Budget and Strategic Plan consultation has begun.</p> <p>One Council and Staff Engagement- team game on the priorities has been rolled out, briefing managers at Unit Managers including on tools such as Visual Management Boards – which include purpose and performance information for teams</p>		
The residents survey identified that more work needed to be done on developing residents involvement in decision	<p>The Communication and Engagement action plan for 2015-16 includes actions to run you said we did campaigns.</p> <p>The plan also includes actions to promote the</p>	Action plan covers 2015-16	Head of Policy and Communications

Governance Issue	Action Update	By When	By Whom
<p>making as only 29% of respondents believe they can influence decision making in their area.</p>	<p>new committee system of governance including public question time at meetings.</p> <p>Webcasting continues to be reviewed including looking at how to have more resident engagement in meetings.</p> <p>The resident survey will measure the progress that has been made.</p>		
<p>Updating the Strategic Risk Register</p>	<p>A framework has now been approved and risks now need to be identified and managed.</p> <p>Audit attendance at service management meetings and project boards across the Council to develop service/project risk registers.</p> <p>Based on the strategic plan, risk workshop with senior officers and Members looking to refresh and update the 'strategic' risks.</p> <p>First comprehensive risk register compiled by audit.</p> <p>First summary risk register review by Corporate Leadership Team.</p>	<p>June 2015</p> <p>July-October 2015</p> <p>December 2015</p> <p>December 2015</p>	<p>Director of Environment and Shared Services supported by the Head of Audit Partnership</p>

Governance Issue	Action Update	By When	By Whom
	<p>First summary risk register review by Policy and Resources.</p> <p>Risks refreshed as part of revised service planning process.</p> <p>Audit, Governance and Standards Committee review of effectiveness of the risk management process.</p>	<p>January 2016</p> <p>Spring 2016</p> <p>Spring/Summer 2016</p>	
Disaggregation of Planning Support Shared Service	Tunbridge Wells Borough Council (TWBC) is exploring withdrawal from the Mid Kent Planning Support partnership. A Planning Support Disaggregation Board has been set up to manage this.	Updates will be given to Councillors via the relevant Service Committee.	Director of Environment and Shared Services
Audit Reviews with weak Assurance.	Action Plans and implementation dates have been put in place and agreed. Both the Data Protection and Emergency Planning Audits are now no longer rated as weak.	<p>Actions to be followed up as they fall due.</p> <p>To be reviewed as part of the six monthly review of the annual governance statement action plan</p>	<p>Head of Policy & Communications</p> <p>Director of Environment and Shared Services</p>
New Committee System of Governance	A review of the effectiveness of the new system to identify what is working well and any improvements that need to be made will be carried out by the Democracy Committee in early 2016, this could involve external assistance if appropriate.	March 2016	Democracy Committee

Governance Issue	Action Update	By When	By Whom
Appointment of Mayor	The Democracy Committee are carrying out a review of the process for appointing the Mayor.	February 2016	Democracy Committee supported by Democratic Services

Agenda Item 10

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

23 November 2015

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Mid Kent Audit Interim Audit Report

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Rich Clarke – Head of Audit Partnership
Lead Officer and Report Author	Rich Clarke – Head of Audit Partnership
Classification	Public
Wards affected	

This report makes the following recommendations to this Committee:

1. The Committee notes and comments as appropriate on progress against the internal audit plan.

This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all -
- Securing a successful economy for Maidstone Borough -

The report is concerned with the internal control and governance of the Council. Successful controls and governance are a crucial underpinning of all corporate priorities.

Timetable

Meeting	Date
Committee (Audit, Governance & Standards)	23 November 2015

Mid Kent Audit Interim Audit Report

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The report provides an update to the Committee on work conducted by Mid Kent Audit in pursuance of the audit plan agreed by the Council's then Audit Committee in March 2015. It also provides commentary on the broader objectives of the service in helping to ensure good governance at the Council.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 Internal Audit has a statutory basis as a service through the Accounts & Audit Regulations 2015. Its principle objective is to examine and evaluate the effectiveness of the Council's systems of internal control, risk management and corporate governance.
- 2.2 This report provides evidence to the Committee in discharging its constitutional responsibility for overseeing and commenting upon Governance at the Council.
- 2.3 The report provides an interim position at approximately the mid-year point. A full annual report, including the Head of Audit Opinion, will come to this Committee in June 2016.
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3. AVAILABLE OPTIONS

- 3.1 The report is presented for information and comment rather than decision.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Not applicable
-

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The individual outcomes included in the report arise from the detail of audit work, each of which was agreed after discussion with officers at the time reports were finalised. The report also reflects previous Committee feedback about the style and content of our summary reports in seeking to provide a broad range of information on progress of the service.
-

6. CROSS-CUTTING ISSUES AND IMPLICATIONS

This report is provided for information rather than decision and consequently raises no new issues and implications. Any and all comments from Members will be considered for future reports and, where applicable, within individual audit projects through the rest of the year.

Issue	Implications	Sign-off
Impact on Corporate Priorities	See comment above	N/A
Risk Management		N/A
Financial		N/A
Staffing		N/A
Legal		N/A
Equality Impact Needs Assessment		N/A
Environmental/Sustainable Development		N/A
Community Safety		N/A
Human Rights Act		N/A
Procurement		N/A
Asset Management		N/A

7. REPORT APPENDICES

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

- Enclosure 1: Mid Kent Audit Interim Audit Report 2015/16.

8. BACKGROUND PAPERS

This report follows on from the 2015/16 Audit Plan. That plan was agreed by the then Audit Committee in March 2015 and is available among papers for that meeting.

The report also draws upon findings from individual audit reviews undertaken through the course of the year to date. This report presents that output in summary format, but full reports are available to Members on request.

MID KENT AUDIT

Interim Internal Audit Report

2015/16

**Maidstone Borough
Council**



Introduction

1. Internal audit is an independent and objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.
2. Statutory authority for Internal Audit is within the Accounts and Audit Regulations 2015, which require at Regulation 5 that:

"[the Council] must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
3. The currently operating standards are the [Public Sector Internal Audit Standards](#) published by HM Government for effect from April 2013 across the UK public sector.
4. In addition to the public sector standards, an internal audit service must also abide by the sector's *Code of Ethics* and International Professional Practices Framework. These codes, a requirement of all internal audit services across public, private and voluntary sectors, are compiled by the Institute of Internal Auditors.
5. The Head of Audit Partnership must provide an annual opinion on the overall adequacy and effectiveness of the Council's framework of control, governance and risk. The opinion takes into consideration:
 - Internal Controls: Including financial and non-financial controls.
 - Corporate governance: Including effectiveness of measures to counter fraud and corruption, and
 - Risk Management: Principally, the effectiveness of the Council's risk management framework.
6. This report provides an update to the Committee across all three areas covered in the opinion and the performance of the Internal Audit service for the first half of the year. In addition, the report provides updates on work conducted by the team, and highlights the impact of our work through assessment of management's work in implementing agreed audit recommendations.

¹ This is the definition of internal audit included within the Public Sector Internal Audit Standards

Internal Control

7. The system of internal control is a process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial systems.
8. We obtain audit evidence to support the Head of Audit opinion on internal control principally through completing the reviews set out within our agreed audit plan, approved by this Committee's predecessor body in March 2015.

Audit Plan Progress

Productive Audit Days

9. In 2015/16 we shifted the main metric of our audit plan away from a fixed number of audit projects and instead towards a total number of productive days per year. This has considerable advantages in giving us a flexible basis to help keep our plans up to date and appropriately responsive to the Council's developing risks and priorities.
10. Up to the end of quarter 2, our progress against the plan in terms of productive days was:

Type of work	Plan Days	Q1/2 Days	Q1/2 %	Forecast Q4	Forecast %
Assurance Projects	316	95	30%	325	103%
Other Work	154	60	39%	150	97%
Total	470	155	33%	475	101%

11. Progress to date reflects that the plan is relatively back loaded (in order to create space in the June-September period for external audit to undertake their work on the Council's financial statements). Also, as noted in the service update later in this report, we have during the early part of the year been carrying vacancies including maternity leave that are now covered by the team coming up to full establishment in November 2015. Consequently we have capacity in place to deliver the expanded workload later in 2015/16 hence the current forecast (which represents budgeted days available to complete work not yet complete).

Audit Review Findings to Date

12. We have completed to final report stage so far a total of seven audit projects, two of which were completed early enough in the year to have featured in our annual report to this Committee in July 2015. Our output from those reports – on Corporate Credit Cards and the Council's Waste Collection Contract – is included in that annual report.

13. Concentrating therefore on the five further reports issued in the period from July, we include below an extract from each report. We are pleased to report that officers have accepted our findings and begun work towards the agreed recommendations. We will follow up implementation of recommendations as noted below.
14. In addition to reports that have reached finalisation, we include in appendix II a summary of work in progress with expected reporting timescales.

	Review Type	Title	Assurance Rating
1	Core Financial System	Business Rates	STRONG
2	Core Financial System	Council Tax	SOUND
3	Corporate Governance	Safeguarding	WEAK
4	Corporate Governance	Members' Allowances	SOUND
5	Consultancy	Planning Support: Project Gateway Review	[not assurance rated]

Business Rates

15. We conclude based on our audit work that the Business Rates system demonstrates **STRONG** controls in both design and operation.
16. The controls within the Business Rates system are effective in design and operation. The Business Rates process is well controlled and mitigates the risk of fraud and error to an acceptably low level. Management controls exist to check validity and integrity of systems information. Our testing found no areas of concern, or significant areas where the service might reasonably seek to improve.

Council Tax

17. We conclude based on our audit work that the Council Tax service demonstrates **SOUND** controls in both design and operation.
18. The controls within the Council Tax system are generally effective in design and operation. The key controls in operation mitigate the risks of fraud and error to an acceptable level and incorporate elements representing best practice, such as prompt and comprehensive property inspections. We noted a discrepancy between the partner sites on refund authorisation where controls could be efficiently improved by harmonisation. Our sample testing also identified a weakness in write-off procedures that the service must address.

Safeguarding

19. We conclude based on our audit work that there are **WEAK** controls over the Council's Safeguarding arrangements. We have established that the Council is satisfying its statutory obligations for safeguarding, with no immediate concerns to report. However, further improvements are needed to provide greater resilience to these arrangements and to ensure safeguarding risks are being adequately managed.
20. The Council is currently undertaking a large amount of work via the Safeguarding Working Party to make improvements to the controls in place over the Council's safeguarding arrangements. We fully acknowledge and commend the Council for work currently in progress and note that this report describes the position identified in the course of our recent fieldwork.
21. We have identified a number of areas within the existing safeguarding arrangements where further improvement is needed which currently fall outside of the work being conducted by the Safeguarding Working Group. The main areas for improvement include;
 - clarifying the Council's statutory obligation for safeguarding within the Constitution,
 - introducing a Deputy Local Authority Designated Officer to provide resilience;
 - including partnership and casual workers within the training programme;
 - introducing a central database of all safeguarding referrals submitted and providing periodic reports to senior management on the number of referrals submitted.
22. In addition, we have highlighted that improvements in the procedures for disclosure and barring checks are necessary to ensure that checks are kept up-to-date and in accordance with the DBS policy.
23. The actions arising from this audit will provide the Head of Housing and Community Services and the Safeguarding Working Group with the necessary support to ensure the Council can be confident of satisfying its statutory safeguarding obligations in the long term.

Members' Allowances

24. We conclude based on our audit work that the service has **SOUND** controls in place to ensure accurate payments of Members' Allowances in accordance with the Members' Allowance Scheme. We provide the definitions of our assurance ratings at appendix II.
25. The Council has in place a comprehensive Members' Allowance Scheme with a framework of procedures and guidance to ensure fair processing and payment of allowances and expenses.

We tested the provision of these payments from request to completion and confirm that allowances and expenses are paid accurately and in accordance with the scheme.

26. During the review we identified that the published Members' Allowance Scheme had not been updated to reflect revised allowance rates. The scheme should be reviewed to ensure that it remains up to date and includes more comprehensive details in respect of broadband allowances. We identified one missing payment as a result of our testing, and this has been brought to the attention of officers to rectify.

Planning Support: Project Gateway Review

27. The [project] Board has proceeded largely on the basis that the option originally put to TWBC cabinet – of a TWBC withdrawal leaving a two-way partnership – would be the most likely outcome. As a result the Board has sought to fully appraise in greater detail this single and most likely option. While other options have been considered at the early stages of the project, they have not received a similar depth of analysis and, in the case of the option 3; have not been considered at all.
28. No options have been considered that involve TWBC remaining in the partnership as this fell outside of the mandated scope of the project. The Board therefore has largely been an exercise in constructing a business case rather than appraisal of different options as originally mandated.
29. Within those constraints, though, the Board has operated diligently in seeking to obtain the best evidence it can, including commissioning external advice where a need is identified. Each work stream has provided evidence to inform the Board in its decision to pursue the chosen option.
30. The inherent lack of clarity in operating ahead of a formal decision means that some evidence relies upon assumptions and extrapolations which are difficult to pin down with certainty and are subject to wide error bars. This is particularly notable on information regarding human resource and finance considerations and data forwarded by parallel project groups operating in MBC and SBC.
31. However, we are satisfied that the Board has efficiently documented its processes meaning that those assumptions are, in general, apparent, open to fair challenge and not unreasonable.

Follow-up of Internal Audit Recommendations

32. Our approach to recommendations is that we follow up each issue as it falls due in line with the action plan agreed with management when we finalise our reporting. We report progress on implementation to Directors each quarter, including noting where we have had reason to revisit an assurance rating (typically when a service has successfully implemented key recommendations) and raising any matters of ongoing concern.
33. Our most recent round of reports covered recommendations due for implementation on or before 30 September 2015. We are pleased to note those reports confirm there are no recommendations outstanding for action beyond their agreed implementation date. This includes a few instances where, after request from the service and having considered the residual risk of delay posed to the Council, we have revised implementation date.
34. In the table below project titles shown in **bold type** are those that originally received an assurance rating of **weak** or **poor** (or the 2013/14 nearest equivalent assurance level).

Project	Agreed Actions	Falling due by 30/9/15	Actions Completed	Outstanding Actions past due date	Actions Not Yet Due
Project Management	14	14	14	0	0
Museum Collections	13	13	13	0	0
Food Safety (Commercial)	12	11	11	0	1
Safeguarding	12	0	0	0	12
ICT Servicedesk	8	8	8	0	0
PC & Internet Controls	8	7	7	0	1
Data Protection	8	7	7	0	1
Declarations of Interest	7	3	3	0	4
Leisure Centre Contract	6	5	5	0	1
Freedom of Information	5	4	4	0	1
Treasury Management	5	5	5	0	0
Waste Collection Contract	4	1	1	0	3
Property Income	4	4	4	0	0
Housing Options	4	3	3	0	1
General Ledger Feeders	3	3	3	0	0
Communications	3	3	3	0	0
Housing Benefits	2	1	1	0	1
Council Tax	2	0	0	0	2
Members' Allowances	2	1	1	0	1
Accounts Payable	1	0	0	0	1
Cashless Pay & Display	1	0	0	0	1
TOTAL	124	93	93	0	31
		75%	75%	0%	25%

35. We note considerable progress made by managers in addressing the issues identified by our reports. With all 93 due recommendations implemented as agreed, the Council is 75% of the way to full implementation – exactly on track for delivery.
36. Of the 21 audit projects follow up, 7 originally received an assurance rating of **weak** or **poor** (or the 2013/14 nearest equivalent assurance level). We have previously advised Members in our 2014/15 annual report that 5 of these (Freedom of Information, ICT Servicedesk, Museum Collections, Data Protection & Housing Options) had made sufficient progress up to July 2015 for us to revisit the assurance rating as **sound** (or the 2013/14 nearest equivalent). Of the projects yet to be similarly reassessed:

Declarations of Interest

37. Four substantive recommendations remain, relating to the need to agree and implement procedures to effectively manage declarations from Officers. We have agreed with officers that these will be addressed by 31 December 2015.

Safeguarding

38. This report was only recently issued, and is discussed in more detail earlier in this report.

Next Steps

39. We will follow up actions due after 30 September, including those arising as we complete our 2015/16 audit plan, later in the year. We will provide a final position to Members as part of our Annual Review in June 2016.

Corporate Governance

40. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.
41. We obtain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or staff through whistleblowing and the Council's counter fraud and corruption arrangements.
42. We attend the following corporate groups:
 - Corporate governance group
 - Information governance group
43. We have also provided, and continue to provide, appropriate project assurance to the following ongoing enterprises within the Council:
 - Accommodation Strategy
 - Safeguarding Development
44. In October 2015 CIPFA² and SOLACE³ published a draft response to the consultation which had been open over the summer looking to replace the existing Good Governance Framework for Local Government which has been in place since 2006. This revised guidance, which the Council must follow in compiling its 2016/17 Annual Governance Statement, is based around seven key principles:
 - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
 - Ensuring openness and comprehensive stakeholder engagement
 - Defining outcomes in terms of sustainable economic, social and environmental benefits
 - Determining the interventions necessary to optimise the achievement of the intended outcomes

² The Chartered Institute of Public Finance & Accountancy; the body charged by Government with setting much of the rules around local government accounting and good governance.

³ The Society of Local Authority Chief Executives; co-commissioned with CIPFA to create and monitor the Good Governance Framework for Local Government.

- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

45. In the new year we will undertake a review considering the Council's readiness for reporting against these Governance principles.

Counter Fraud & Corruption

46. We consider fraud and corruption risks in all of our regular audit projects as well as undertaking distinct activities to assess and support the Council's arrangements.

Investigations

47. During the first half of 2015/16 there have been no matters raised with us that required investigation.

Whistle-blowing

48. The Council's whistleblowing policy nominates internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour. During 2015/16 so far we have received no such declarations.

49. We were commissioned in September 2015 to undertake a specific review of the Council's whistleblowing arrangements and have since agreed an audit brief with the Chairman which will examine both compliance with the Public Concern At Work best practice guidance and general awareness within the Council. We are also pleased to confirm that both Tunbridge Wells and Ashford have agreed to participate in the review which will provide a comparative insight into Maidstone's arrangements. We will report our findings to Members in January 2016.

National Fraud Initiative

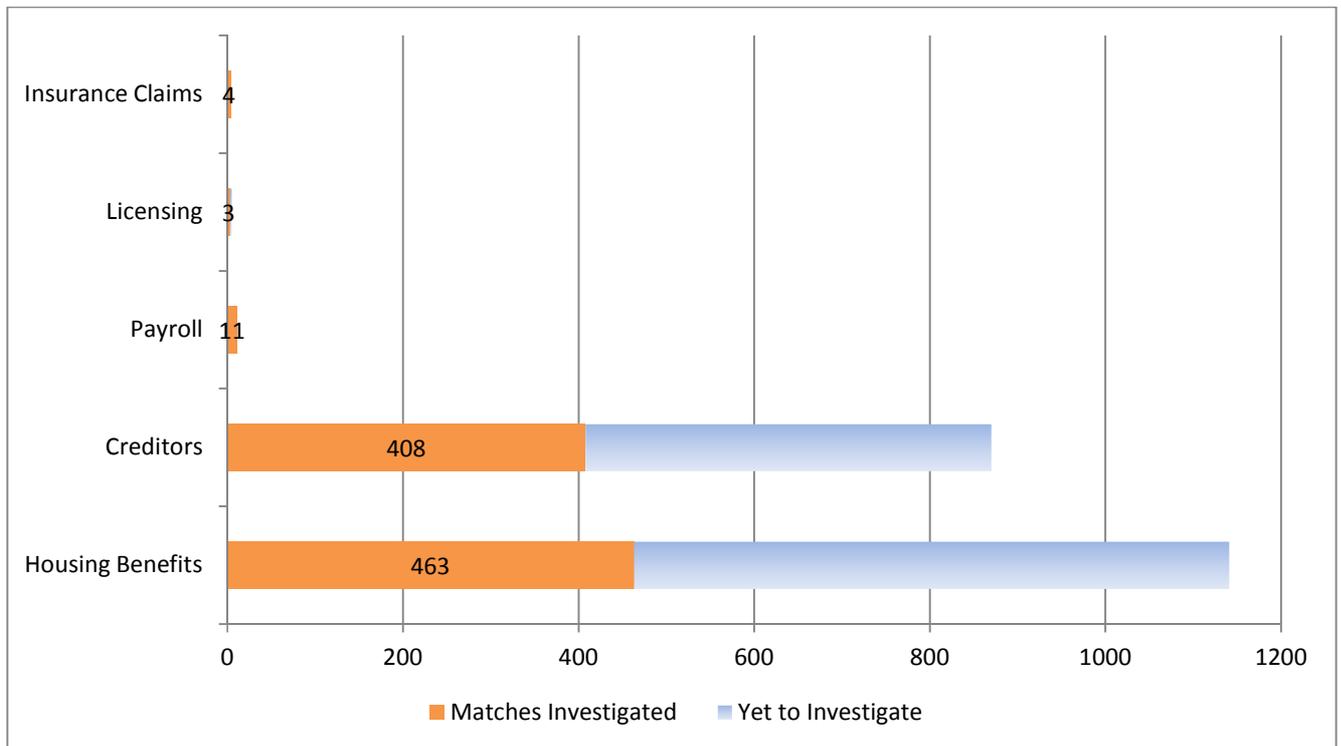
50. We have continued as co-ordinator of the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching exercise, and we are required by law to submit various forms of data. Since March 2015, the NFI exercise has been administered by the Cabinet Office.

51. The current NFI exercise has been releasing data in tranches since January 2015 and includes the following services:

- Housing Benefits (1,141 total matches)
- Creditors (870 total matches)
- Payroll (11 total matches)
- Licensing (5 total matches)
- Insurance Claimants (4 total matches)

52. One further category (Residents' Parking) returned no matches for the Council.

53. The graph below plots progress to date. Note that at present the matches examined have identified 5 cases of fraud or error valued at £4,374. Cabinet Office guidance is that all matches should be investigated within the two year cycle of NFI data (so, by January 2017).



54. In keeping with the enhanced skill base of the audit team, and to ensure greater independence and efficiency in matches, Mid Kent Audit will be taking on direct examination of non-benefits matches (rather than just co-ordination) from January 2016.

Mid Kent Audit Counter Fraud Training

55. Our 2014 Fraud Risk Review indicated that, outside of the dedicated Benefits Fraud Team, the Council was limited in its Counter Fraud expertise. We have acted to address that need by increasing the skills and training within the audit service, including becoming one of the first audit teams in the country to contain team members possessing CIPFA accredited qualifications at Technician and (exam results permitting) Specialist level.
56. In 2016 we will be working with the Council and (if Members decisions support its creation) the revised Revenues Fraud Team to enhance the Council's approach to counter fraud.

Attempted Frauds

57. During this year we have also been made aware of an attempted fraud at the Council involving the use of a 'spoofed' email account purporting to be that of a Council employee and requesting a bank transfer. Although it is of concern that the would-be fraudster had (apparently) attained some degree of familiarity with Council processes the attempt was unsuccessful as errors in the approach led to the attempt being thwarted by the Council's existing controls. Our investigation could not identify the culprit – 'spoof' emails are created easily enough and very difficult to trace – we have examined the Council's controls and investigated to determine whether any similar attempts had been successful and undetected.
58. We did not identify any further such attempts which, coupled with successful operation of financial controls, led us to identify this as a low fraud risk. Consequently, we have provided advice to finance teams on remaining vigilant and have reported the matter to the police but plan no continuing action unless there are further developments.

Risk Management

59. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
60. We obtain audit evidence to support the Head of Audit Opinion through completion of our audit plan plus continuing monitoring of and contribution to the Council's risk management processes.
61. In June 2015 the Policy & Resources Committee agreed to adopt a new approach to risk management at the Council. This paper, which was produced and proposed by Mid Kent Audit, was the culmination of six months enquiry and research with both member and officer workshops investigating the Council's risk appetite and objectives from risk management.
62. The approach is currently underway working towards establishing a *comprehensive risk register* that has three major threads:

Service risks

63. A significant weakness of the Council's previous approach was a lack of consistency in evaluating, recording and reporting risks originating from within services. While more traditional approaches tended to see such matters as purely operational, there are plenty of examples of such issues, if not effectively managed, causing significant disruption to the Council as a whole (the implementation of the shared Planning Support service being one recent example).
64. To remedy this we have been undertaking risk management workshops with services across the Council, hosting nearly 20 such workshops to provide training on the framework and collect information that will inform the risk register.

Project risks

65. A separate key source of risk is the Council's corporate projects. As required by the Council's project management framework each project will have compiled and maintained its own risk register and work is currently underway drawing these risks within the overall register.

Corporate risks

66. Sitting across the service risks are those issues that could impede the Council's ability to achieve its corporate objectives. To help identify these risks, the Council has

commissioned Grant Thornton to lead a risk workshop with Senior Officers and Members. The workshop is scheduled for 14 December 2015 and will be reported through risk management reporting.

Next steps

67. Once the various threads are drawn together we will be in a position to compile and publish the *Comprehensive Risk Register*. From this we will extract a *summary risk register* highlighting the most prominent risks and current measures to address them, along with a report discussing key themes and messages from the broader risk register. This will be reported to Members at Policy and Resource Committee in late January 2016.
68. In the longer term, risk management will be incorporated into both the Council's service planning regime and used to shape and scope our audit plans and how we plan and support individual audit projects.
69. We in audit will also look, over time, to reintegrate risk management with the Council's core policy functions so that we can step back to a role principally aimed at evaluating the effectiveness of the approach. As a short term measure, while we are involved in assisting in developing the approach, we have instituted separate controls within the service to safeguard our independence – something our relatively increased size and diverse base as a shared service allows us to operate.

Mid Kent Audit Service Update

70. After a period of disruption encompassing the departure of a long serving manager and (temporarily) losing team members to maternity leave, Mid Kent Audit is now fully resourced going into 2016.
71. This period has also encompassed a restructure, intended to provide greater capacity at all levels of the service but in particular at a management level to increase our ability to respond rapidly to authorities changing risks and priorities and deliver focussed, strategic reviews. This Committee has already started to make use of that capacity by commissioning a specific piece of work examining whistleblowing arrangements.
72. We include at appendix III the revised team structure, but key points of development:
- **Deputy Head of Audit Partnership:** This role brings advantages in providing an additional senior point of contact to help cover our four authorities and also opens up the possibility of internal independence safeguards that will also us to play a more prominent role in service development where invited to do so (on risk management, for example). We're pleased to confirm that *Russell Heppleston*, well known to this Committee, was promoted into this role in July 2015.
 - **Audit Managers:** We have reshaped the audit manager role to move it away from principally quality assurance towards more engagement in direct service delivery. This will include completing additional consultancy work both responding to emerging risks at individual authorities but also taking a broader comparative look across the partnership. Again, we're very pleased that these roles have enabled us to identify and grow expertise within the team; the new managers are *Frankie Smith* (Swale and Tunbridge Wells) and *Alison Blake* (Maidstone and Ashford) both of whom were previously Senior Auditors.
 - **Audit Team Administrator⁴:** Since we began collecting detailed timesheet information in July 2014 we have identified a range of administrative tasks undertaken by our auditors that could be undertaken by a team administrator to free up their time to progress audit projects. Following the restructure we have been able to recruit into this role, and have been joined by *Louise Taylor* who is based at Maidstone.
73. We also continue to pursue development within the audit team to ensure we continue to offer a broad and deep range of skills and experience to our partner authorities. Since our last update we have had team members achieve a Professional Diploma in Internal Audit from the Institute of Internal Auditors (IIA), professional qualifications from the Institute of Risk Management and professional counter-fraud qualifications from CIPFA at both Specialist and Technician level. On

⁴ This role is currently operating on a trial basis.

these final qualifications, Mid Kent Audit has become one of the first audit services in local government to feature among its team both Specialist and Technician qualified members, which will provide significant assistance as we look to help authorities develop their counter fraud approach.

74. Also Frankie Smith, one of our new Audit Managers, completed her qualification with the IIA and is now a Chartered Internal Auditor. This brings to four the number of people within the team who hold CCAB⁵ equivalent qualifications.

Quality and Improvement

75. Members will recall earlier in 2015 when Mid Kent Audit was assessed by the IIA as fully conforming with Public Sector Internal Audit Standards. However, these Standards are not a fixed point, in fact one of the core requirements is for audit services to seek continuous improvement.
76. In a formal sense this is driven by guidance recommended by the Internal Audit Standards Advisory Board (IASAB) – a body including Mid Kent Audit’s Head of Audit (Rich Clarke) as the England Local Government representative. Through that route we are aware that, from April 2016, local authority audit services must also comply with the IIA’s International Professional Practice Framework. This Framework sets common standards across audit globally in public, private and voluntary sectors.
77. Although the Framework will not be mandatory until next year, we have undertaken an evaluation of our service and are confident we are already operating in conformance. We set out below the ten key principles of the Framework alongside a note on their local implementation:

Principle	Commentary
Demonstrates integrity	The IIA Code of Ethics is embedded in our Audit Charter and our Audit Manual.
Demonstrates competence and due professional care	Our Audit Manual and methodology are compliant with Standards and monitored by a managerial review process for all audit projects.
Is objective and free from undue influence	Our independence is safeguarded by our Audit Charter and reaffirmed and reconsidered in planning each individual piece of audit work we undertake.

⁵ CCAB is the umbrella term for Chartered qualifications recognised by the Consultative Committee of Accountancy Bodies (CCAB) encompassing the major accounting and audit bodies in the UK. Such qualifications are the minimum requirement before an individual can hold a Head of Audit role according to the Public Sector Internal Audit Standards.

Principle	Commentary
Aligns with the strategies, objectives and risks of the organisation	Our audit planning is informed by the Council's strategic objectives and we consider individual service objectives and risks in each project.
Is appropriately positioned and adequately resourced	Our Audit Charter sets out our position in the authority and guarantees a right of access to Members. Members comment on our resourcing each year in approving our audit plans.
Demonstrates quality and continuous improvement	We operate a quality and improvement plan informed by current and upcoming developments in professional standards (such as the IPPF).
Communicates effectively	We have recently reviewed our reporting approach and structure and have received strong feedback on its clarity and relevance to Officers and Members.
Provides risk-based assurance	Our assurance ratings and recommendation priority levels are informed by the Council's key risks and focus on the continuing risks to the authority posed by the issues we identify in our work.
Is insightful, proactive and future focussed	We have recently expanded managerial capacity to further enhance our ability to offer proactive work, especially on emerging risks across the partnership.
Promotes organisational improvement	We have restructured our management team, in part, to allow us to undertake a greater role in directly supporting organisational improvement where invited to do so.

78. All of the Mid Kent Audit Management Team are grateful for the continuing efforts of the audit team who have worked extremely hard to first meet, then exceed the standards of our profession. These achievements and improvements in service standards would not have been possible without their continued commitment, determination and highest levels of professionalism.

Performance

79. Aside from the progress against our audit plan we also report against a number of specific performance measures designed to monitor the quality of service we deliver to partner authorities. The Audit Board (with David Edwards as Maidstone's representative) considers these measures at each of its quarterly meetings, and they are also consolidated into reports submitted to the MKIP Board (which includes the Council's Chief Executive and Leader).
80. Below is an extract of the most recent such performance report. After a year of data collection to set a baseline, we are operating in 2015/16 to agreed performance targets. Although the targets are year-end measures, we are pleased to report we are already, in most areas,

performing at or near the stretch target level and will be looking to agree further improvement targets for 2016/17 early in the new year.

81. We have withheld only one measure from publication – cost per audit day – as it is potentially commercially sensitive in the event of the Partnership seeking to sell its services to the market. We would be happy, however, to discuss with Members separately on request.
82. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

Measure	2014/15 Outturn	2015/16 Target	Q2 2015/16
% projects completed within budgeted number of days	47%	60%	57%
% of chargeable days	75%	68%	66%
Full PSIAS conformance	56/56	56/56	56/56
Audit projects completed within agreed deadlines	41%	60%	57%
% draft reports within ten days of fieldwork concluding	56%	70%	65%
Satisfaction with assurance	100%	100%	100%
Final reports presented within 5 days of closing meeting	89%	90%	96%
Respondents satisfied with auditor conduct	100%	100%	100%
Recommendations implemented as agreed	95%	95%	96%
Exam success	100%	75%	100%
Respondents satisfied with auditor skill	100%	100%	100%

Acknowledgements:

83. We would also like to thank Managers, Officers and Members for their continued support, assistance and co-operation as we complete our audit work during the year.

Appendix I: Assurance & Priority level definitions

Assurance Ratings 2015/16

Full Definition	Short Description
<p>Strong – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any, recommendations and those will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p>Sound – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p>	<p>Service/system is operating effectively</p>
<p>Weak – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p>Poor – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p>	<p>Service/system is not operating effectively</p>

Recommendation Ratings 2015/16

Priority 1 (Critical) – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

Priority 2 (High) – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council's aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

Priority 3 (Medium) – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

Priority 4 (Low) – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

Advisory – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.

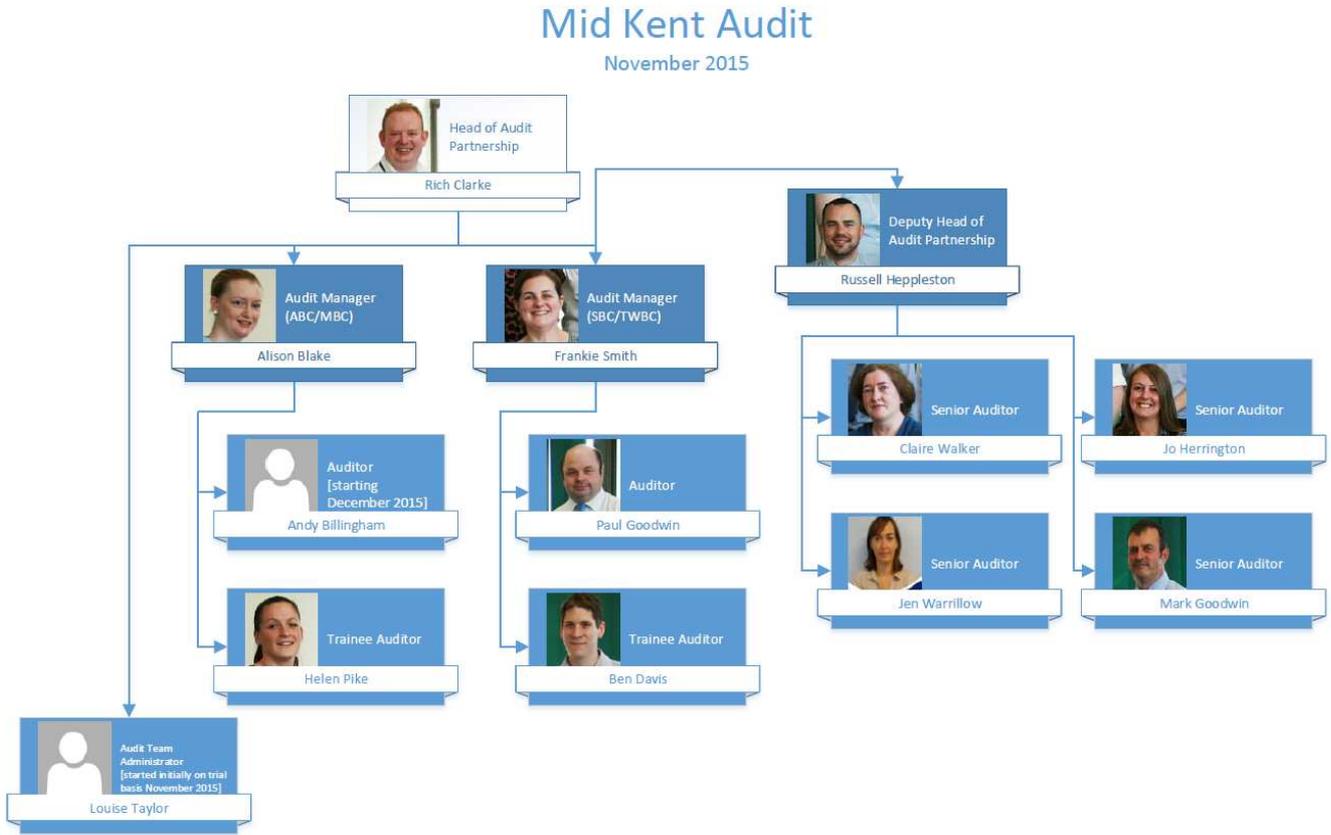
Appendix II: Audit Plan Progress 2015/16, Projects Only (for interim report)

Project Title	Project Type	Planning	Underway	Complete	Rating
Business Rates (MKS)	CFS			X	STRONG
Council Tax (MKS)	CFS			X	SOUND
Safeguarding	CGR			X	WEAK
Members' Allowances	CGR			X	SOUND
Planning Support: Gateway (MKS)*	Adv			X	N/A
Procurement	CFS		X		
Grounds Maintenance	SR		X		
Whistleblowing Review*	Adv		X		
Commercial Projects	SR		X		
Corporate Project Management	CGR		X		
Licensing	SR	X			
Budget Management	CFR	X			
Customer Services	SR	X			
Business Continuity	CGR	X			
Learning & Development (MKS)	SR	X			
Good Governance Framework	CGR	X			
Payments & Receipts	CFR				
Section 106	SR				
Temporary Accommodation	SR				
Park & Ride	SR				
Payroll (MKS)	CFR				
Discretionary Payments (MKS)	SR				
Asset Management	SR				
Litter Enforcement	SR				
Community Safety	SR				
Networks (MKS)	SR				
Parking Enforcement (MKS)	SR				

Project Types:
 CFS = Core Finance System
 CGR = Corporate Governance Review
 SR = Service Review
 Adv = Consultancy/Advisory Work

Project Title Key:
 (MKS) = Shared Service Project involving Maidstone BC
 * = addition to the plan as originally approved in March 2015

Appendix III: Mid Kent Audit Team Structure November 2015



To provide cover for two members of the team currently away on maternity leave we have engaged two contract auditors to deliver specific projects across the partnership.

Audit Governance & Standards Committee

**23rd November
2015**

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Treasury Management Strategy Mid Year Review 2015/16

Final Decision-Maker	Audit Governance & Standards Committee
Lead Head of Service	Paul Riley, Head of Finance & Resources
Lead Officer and Report Author	John Owen, Accountant (Systems)
Classification	Public
Wards affected	All

This report makes the following recommendations to this Committee:

1. Notes the position of the Treasury Management Strategy as at 30th September 2015.
2. No amendments to the current procedures are necessary as a result of the review of activities in 2015/16.

This report relates to the following corporate priorities:

- An effective Treasury Management Strategy assists with all financial implications of the Council which will enable it to achieve its priorities.

Timetable

Meeting	Date
Audit Governance & Standards Committee	23 rd November 2015

Treasury Management Strategy Mid Year Review 2015/16

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Council has adopted CIPFA's Treasury Management Code of Practice which recommends that a Mid-Year Review on the Treasury Management function covering activities during the year are reported to an appropriate committee.
- 1.2 The Council has delegated this role to the Audit, Governance and Standards Committee.

2. INTRODUCTION AND BACKGROUND

- 2.1 This report sets out the activities of the Treasury Management function for the first 6 months of 2015/16 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 6 months.
- 2.2 The key elements of 2015/16 Strategy are:
 - Invest additional core cash of up to £3m for over 1 year if rates were to improve, potentially using this amount to invest in property funds;
 - Include overseas institutions within the Council's counter party list who are listed on Capita's credit quality listing and where the Country's sovereignty rating is equal or above the UK rating AA+;
 - The Head of Finance & Resources be given delegated authority to invest within the certificate of deposit market to access highly secure counterparties.

2.3 An Economic Overview of 2015/16

UK growth rates in 2013 and 2014 were the strongest growth rates of any G7 Country. However, quarter 1 of 2015 growth was weak to around +0.4% (+2.9 y/y) which has then increased again within quarter 2 to 0.7% (+2.4 y/y). It is shown that growth has fallen again within quarter 3 to around 2.3%.

CPI has fallen to or near zero and there has also been a recovery in wage inflation over the last quarter. CPI has now fallen further to -0.1% in September which was mainly due to lower fuel prices.

Unemployment fell slightly in the 3 months leading up to August, the lowest since mid2008. Wage growth has increased, including bonuses to 3% during the same period, an increase from 2.9% previously. Excluding bonuses, average wage earnings have fallen to 2.8%.

2.4 Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

This latest forecast shows a first increase in Bank Rate in quarter 2 of 2016 which has shifted back from the previous forecast of October 2015.

Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate.

Capita will be reviewing this forecast in December 2015 as there are expectations of a rate increase in the US at this time.

2.5 Maidstone Borough Council Overview

All new investments during the first 6 months of 2015/16 have been short term (less than one year). Total investments as at 30th September 2015 were £34.55m. A list of these can be found within **Appendix I**.

The Council has invested in one overseas bank as per the Treasury Management Strategy. This institution is The Commonwealth Bank of Australia. This is a highly rated institution which the Council can invest up to £5m for a duration of 1 year. Details of this investment can also be found within **Appendix I**.

The average rate on Council investments is 0.75% which is in line with performance and is benchmarked against other authorities within Kent and Sussex.

Investment income up to 30th September 2015 is £116k.

The Council has used highly rated institutions to invest its funds and have kept the majority of investments under 1 year in case funds are needed to fund the potential property purchases and to react to potential changes within market rates.

The Council reviewed Property Funds during 2014/15, which at this point the net returns were deemed to be insufficient to justify the risks in tying up funds for a longer period of time. Due to the increase in returns, these are currently being reviewed again. The Head of Finance & Resources already has delegated authority to enter in these instruments via the authorisation Members had given to him within Treasury Management Strategy 2015/16.

The Council had to borrow for short term liquidity reasons on the following occasions:

Amount of Borrowing	Dates	Duration	Interest Charged
£1.5m	22-25 May 2015	4 days	£106.85
£1.5m	22 September 2015	1 day	£32.88

2.6 Annual Investment Strategy

The Treasury Management (TM) Strategy was approved for 2015/16 by Council in March 2015. The Council's Annual Investment Strategy, which is incorporated in the TM Strategy and outlines the Council's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

The Council will aim to achieve optimum return on investments after having satisfied 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, information provided by the Council's investment advisors, Capita Asset Services, along with sharing information with other local authorities and being mindful of market intelligence.

2.7 Borrowing

The Council has a provision for long term borrowing of up to £6m for capital investment purposes specified within the strategy, with an overall limit for external borrowing of £10m. No long term borrowing was required during 2015/16 as there were sufficient internal resources available to finance the capital programme. The Council did however borrow for short term purposes as listed within 2.5 above.

2.8 Prudential and Treasury Indicators

It is a statutory duty for the Council to determine and keep under review "Affordable Borrowing Limits". During the financial year 2015/16, the Council has operated with the prudential and treasury indicators set out in the Treasury Management Strategy Statement and in compliance with the Council's Treasury management Practices. The prudential and treasury indicators are shown within **Appendix II**.

2.9 Cash Management

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 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 funds being paramount;
 - Interest paid on borrowing should be minimised;
 - Adequate funds should be available to meet precept, business rates and other payments as they fall due;
 - Cash management activities are carried out in accordance with the agreed Treasury Management Strategy.
-

3. AVAILABLE OPTIONS

- 3.1 The Audit, Governance and Standards Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities within the first 6 months of 2015/16.
- 3.2 The Audit, Governance and Standards Committee proposes changes to the current procedures as a result of a review of activities within the first 6 months of 2015/16.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The Audit, Governance and Standards Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities within the first 6 months of 2015/16 as there are no justifications to make any changes.
-

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 None
-

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 If The Audit, Governance and Standards Committee agree that no amendments to current procedures of the Treasury Management function are necessary, then there will be no further action.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	None	
Risk Management	<p>Risk management is included within the Treasury Management Practices to which the Council adheres. These risks comprise of:</p> <ul style="list-style-type: none"> • credit and counterparty risk, • liquidity risk, • interest rate risk and • exchange rate risk, refinancing risk (however, the Council only deals in its home currency sterling). • Legal & regulatory risk • Fraud, error and corruption • Market risk management 	Head of Finance & Resources
Financial	This report relates to the financial activities of the council in respect of treasury management and specific financial implications are therefore detailed within the body of the report.	Section 151 Officer
Staffing	None	
Legal	Compliance with statutory and legal regulations, e.g. CIPFA Code of Practice on Treasury management in local authorities.	Mid Kent Legal Partnership
Equality Impact Needs Assessment	None	
Environmental/Sustainable Development	None	
Community Safety	None	
Human Rights Act	None	
Procurement	None	
Asset Management	None	

8. REPORT APPENDICES

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

- Appendix I: List of Investments held as at 30th September 2015
 - Appendix II: The Prudential and Treasury Indicators
-

9. BACKGROUND PAPERS

None

MAIDSTONE BOROUGH COUNCIL
INVESTMENTS AS AT 30TH SEPTEMBER 2015

Type of Investment/Deposit	Counterparty	Issue Date	Maturity Date	Amount Invested £	Interest Rate %	Credit Limits £	
						Maximum Deposit	Suggested Term
Money Market Fund	GS MMF			1,550,000	0.45	8,000,000	2yrs
Money Market Fund	Standard Life			5,000,000	0.49	8,000,000	2yrs
Enhanced Money Market Fund	Standard Life			3,000,000	0.66	8,000,000	2yrs
Fixed Term Deposit	Leeds Building Society	01/04/2015	01/10/2015	2,000,000	0.69	3,000,000	6mnths
Fixed Term Deposit	Lloyds Bank	14/10/2014	13/10/2015	2,000,000	0.70	3,000,000	6mnths
Fixed Term Deposit	Barclays Bank	01/05/2015	02/11/2015	1,000,000	0.65	3,000,000	6mnths
Fixed Term Deposit	Santander UK Plc	08/05/2015	09/11/2015	2,000,000	0.75	3,000,000	6mnths
Fixed Term Deposit	Santander UK Plc	11/06/2015	11/12/2015	1,000,000	0.69	3,000,000	6mnths
Fixed Term Deposit	Goldman Sachs Intl Bank	29/06/2015	18/12/2015	3,000,000	0.72	3,000,000	6mnths
Fixed Term Deposit	Skipton Building Society	11/06/2015	22/12/2015	1,000,000	0.72	2,000,000	6mnths
Fixed Term Deposit	Skipton Building Society	28/07/2015	28/01/2016	1,000,000	0.70	2,000,000	6mnths
Fixed Term Deposit	Lloyds Bank	29/01/2015	28/01/2016	1,000,000	1.00	8,000,000	2yrs
Fixed Term Deposit	Nationwide Building Society	10/08/2015	10/02/2016	1,000,000	0.66	3,000,000	6mnths
Fixed Term Deposit	Barclays Bank	27/08/2015	29/02/2016	2,000,000	0.69	3,000,000	6mnths
Fixed Term Deposit	Commonwealth Bank of Australia	15/09/2015	15/07/2016	1,000,000	0.71	5,000,000	1yr
Fixed Term Deposit	Lloyds Bank	03/08/2015	01/08/2016	2,000,000	1.00	8,000,000	2yrs
Fixed Term Deposit	Lloyds Bank	22/07/2014	22/07/2016	3,000,000	1.30	8,000,000	2yrs
Fixed Term Deposit	Royal Bank of Scotland	11/03/2015	11/03/2017	2,000,000	1/1.44	8,000,000	2yrs
Total Investments							
				£34,550,000			

PRUDENTIAL INDICATORS

Ratio of Financing Costs to Net Revenue Stream

2014/15 Actual %	2015/16 Estimate %	2015/16 Actual %
-0.8	-1.1	-1.2

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

	2014/15 Actual £,000	2015/16 Estimate £,000	2015/16 Actual £,000
i) Forecast of total budgetary requirement no changes to capital programme	4,211	10,192	10,192
ii) Forecast of total budgetary requirement after changes to capital programme	5,400	4,026	832
iii) Additional Council Tax Required in £.p.	0.78	-4.31	-1.19

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

Capital Expenditure

2014/15 Actual £,000	2015/16 Estimate £,000	2015/16 Actual £,000
4,742	4,026	832

This is the actual capital expenditure against the estimate for 2015/16

Capital Financing Requirement

2014/15 Actual £,000	2015/16 Estimate £,000	2015/16 Actual £,000
-1,461	-2,033	-1,461

The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The CFR includes the liability for the arrangement with Serco Paisa for leisure centre improvements. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. A negative figure shows that the current capital programme is affordable and there is no borrowing requirement

Treasury Indicators

Authorised Limit for External Debt

	2014/15 Actual £,000	2015/16 Estimate £,000	2015/16 Actual £,000
Borrowing	1,500	10,000	1,500
Other Long Term Liabilities	5,426	4,971	4,782
Total	6,926	14,971	6,282

This is the main limit which set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003. Only short term borrowing was undertaken during this period

Operational Limit for External Debt

	2014/15 Actual £,000	2015/16 Estimate £,000	2015/16 Actual £,000
Borrowing	1,500	6,000	1,500
Other Long Term Liabilities	5,426	4,971	4,782
Total	6,926	10,971	6,282

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 basis

Actual External Debt

	2014/15 Actual £,000	2015/16 Estimate £,000	2015/16 Actual £,000
Actual Borrowing	0	0	0
Other Long Term Liabilities	5,426	4,971	4,782
Total	5,426	4,971	4,782

Actual point in time of external borrowing

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

**Monday 23rd
November 2015**

Is the final decision on the recommendations in this report to be made at this meeting?

No

External Auditor's Annual Audit Letter

Final Decision-Maker	Audit and Governance Committee
Lead Head of Service	Head of Finance and Resources
Lead Officer	Paul Riley
Report Author	Report prepared by Janette Gill
Is this a key decision report	No
Classification	Public
Wards affected	N/A

This report makes the following recommendations to this Committee:

1. It is recommended that the Committee note and comment on the External Auditor's Annual Audit Letter included at Appendix A to this report and consider whether any recommendations should be made to Policy and Resources Committee.

Issues for Consideration:

2. To consider the External Auditor's Annual Audit Letter for the year ended 31st March 2015

This report relates to the following corporate priorities:

- The council is committed to delivery of Value for Money services and securing a successful economy for Maidstone Borough Council
- This Annual Audit Letter outlines its measures in securing that commitment

Timetable

Meeting	Date 23 November 2015
Audit & Governance Committee	
Maidstone Borough Council	

External Auditor's Annual Audit Letter

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of the report is to communicate the key findings, contained within the Annual Audit Letter, arising from the work of the External Auditor's Grant Thornton.
 - 1.2 The Annual Audit Letter is intended to communicate key messages to the Council, External Stakeholders and Members of the public.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 The Annual Audit Letter will report a summary of the findings from the Annual Audit of the Statement of Accounts 2014/15 and will focus on three areas of work such as Financial Statements Audit (including the Audit Opinion), Value for Money (VfM) conclusion and Certification of the Housing Benefit grant claim.
-

3. REASONS FOR RECOMMENDATIONS

The Annual Audit Letter summarises the findings from the work undertaken by the External Auditors for the financial year ending 31st March 2015. Representatives from Grant Thornton UK LLP will be in attendance at this meeting to present the report.

It is recommended that this report is considered by the Audit and Governance Committee in accordance with the terms of reference detailed within Part 2 of the Council's Constitution.

Alternative Action and why not Recommended

- 3.1 The Committee, and the Council, could choose not to acknowledge the comments made by the External Auditor, but this is an independent view of how the Authority is operating. It offers Stakeholders to form a view of how the Council is performing efficiently and effectively on a range of areas including the delivery of Value for Money Services.

4. IMPLICATIONS

The implications arising from this report are in the following table:

Issue	Implications	Sign-off
Impact on Corporate Priorities	Delivery of Value for Money Services	Head of Finance & Resources
Risk Management	Forms a key part of the Corporate Governance arrangements which are assessed as part of the Annual Audit	Chief Accountant
Financial	The financial implications arising from the work of External Audit are detailed within Appendix A	Section 151 Officer & Finance Team

5. REPORT APPENDICES

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

- Appendix A: The External Auditor’s Annual Audit Letter 2014/15

6. BACKGROUND PAPERS

There are no background papers for this report.

The Annual Audit Letter for Maidstone Borough Council

Year ended 31 March 2015

October 2015

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Darren Wells

Director

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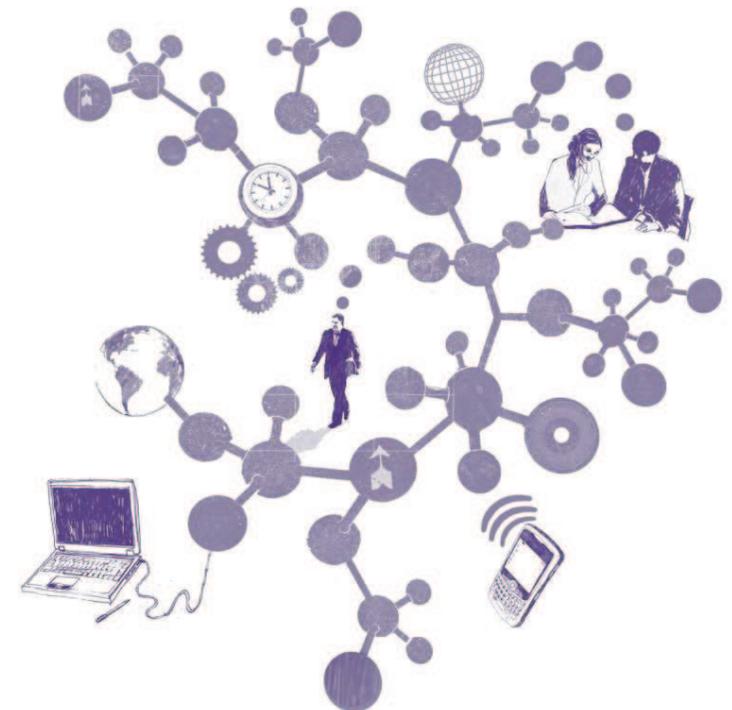
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Key messages

Our Annual Audit Letter summarises the key findings arising from the work we have carried out at Maidstone Borough Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with our Audit Plan that we issued to you on 30 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

09

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 21 September 2015 to the Audit, Governance and Standards Committee. The key messages reported were:

- the Council provided a good quality set of financial statements for audit accompanied by comprehensive working papers in line with the agreed timetable. Officers responded promptly to audit queries, enabling us to complete fieldwork in a timely and efficient manner.
- Officers identified a material change to debtors and creditors which did not affect the general fund outturn position, before we started our work.
- We identified some minor changes to disclosures which the Council corrected in the final set of financial statements.

We issued an unqualified opinion on the Council's 2014/15 financial statements on 23 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Key messages continued

<p>Value for Money (VfM) conclusion</p> <p>61</p>	<p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015. We therefore issued an unqualified VfM conclusion for 2014/15 on 23 September 2015.</p> <p>We reported the key messages from our audit work in the same Audit Findings Report. Overall, the Council has sound processes in place to ensure its continued financial resilience, but in common with the rest of the sector, it continues to face significant financial pressures to balance its budgets over the five years covered by its medium term financial strategy. The Council needs to continue to explore different approaches, including more transformational change to providing services, to bridge the required savings gap in later years. Work is in progress on this. The Council spent £4.427m on capital projects compared to an original estimate of £11.67m. This is a significant variance to the original budget. Slippage in the capital programme may mean that resources are not being used to best effect. The Council should ensure greater scrutiny of the capital budget to ensure that this is achievable within the planned timeframe. We concluded the Council has adequate arrangements in place to prioritise its resources and to improve efficiency and productivity.</p>
<p>Certification of housing benefit grant claim</p>	<p>Our work on the Council's 2014/15 housing benefit grant claim is in progress but largely complete. We will provide a summary of the main issues from our work separately to the Council later in the year.</p>
<p>Audit fee</p>	<p>Our audit fee for 2014/15 was £67,300, excluding VAT which was in line with our planned fee for the year and the same as the previous year. We will notify you separately of the certification fee for 2014/15 on completion of our work.</p> <p>Further detail is included within Appendix A.</p>

Appendix A: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Planned fees 2014/15 £	Actual fees 2014/15 £	Actual fees 2013/14 £
Council audit	67,300	67,300	67,300
Housing benefit grant certification fee	13,910	Tbc	15,224
Total audit fees	81,210	tbc	82,524

Fees for other services

Service	Fees £
Audit related services	
None	N/A
Non-audit related services	
None	N/A

62 Reports issued

Report	Date issued
Audit Plan	30 March 2015
Audit Findings Report	23 September 2015
Certification Report	Expected December 2015
Annual Audit Letter	October 2015



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Agenda Item 13

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

**Monday 23rd
November 2015**

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Audit Committee Update – November 2015

Final Decision-Maker	Audit and Governance Committee
Lead Head of Service	Head of Finance and Resources
Lead Officer	Paul Riley
Report Author	Janette Gill
Is this a key Decision	No
Classification	Public
Wards affected	N/A

This report makes the following recommendations to this Committee:

1. It is recommended that the Audit and Governance Committee notes the External Auditor's update report attached at Appendix A

Issues for Consideration:

2. To consider the report of the External Auditor on the proposed Audit Programme for 2015/16. Representatives from Grant Thornton UK LLP will be present at the meeting to present their report and answer any questions.

This report relates to the following corporate priorities:

- Securing a successful economy for Maidstone Borough Council – delivery of Value for Money services

Timetable

Meeting	Date : 23 November 2015
Audit and Governance Committee	
Maidstone Borough Council	

Audit Committee Update – November 2015

1. PURPOSE OF REPORT

- 1.1 This report is to communicate to the Audit and Governance Committee a report on the progress in delivering the responsibilities of the Authority's External Auditors.
 - 1.2 The report also includes emerging issues and developments relevant to the Authority along with any questions that may arise as a result of those emerging issues. A copy of the Audit Committee Update Report is attached at Appendix A.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 The Audit Committee Update Report will provide a report on the progress of the work of the External Auditor's Grant Thornton UK LLP, in discharging their responsibilities as outlined in the above at Paragraph 1.
-

3. REASONS FOR RECOMMENDATIONS

- 3.1 External Audit Services are provided by Grant Thornton UK LLP who successfully tendered for the five year contract from 2012/13 following the abolition of the Audit Commission's audit practice.
- 3.2 In addition to updating the Audit and Governance on a range of emerging issues, this report provides an overview of the planned programme of work by the Auditors for 2015/16.
- 3.3 Members have previously indicated that they found this type of report to be useful.
- 3.4 Representatives of Grant Thornton UK LLP will be at the meeting to present the report and answer any questions.

Alternative Action and why not Recommended

- 3.5 In accordance with the respective responsibilities of both the External Auditor and the Audit and Governance Committee, a progress report update of this nature is judged to be appropriate for consideration. To not consider the report could weaken the Audit and Governance Committee's capacity to discharge its responsibilities in relation to External Audit.
-

4. IMPLICATIONS

The implications to consider as a result of this report are as follows:

Issue	Implications	Sign-off
Impact on Corporate Objectives	The report is focused on ensuring that the Auditor's Opinion on the 2015/16 Financial Statements is issued by the Statutory deadline of the 30 th September 2016.	Head of Finance & Resources
Risk Management	This report supports the Committee in the delivery of its Governance responsibilities. It also helps to mitigate the risk of non-compliance with the statutory timetable for production and audit of the annual accounts through timely communication of any potential issues.	Chief Accountant
Financial	The financial implications arising from the proposed work will be contained in the Audit Plan referred to in the Report at Appendix A	Head of Finance & Resources

5. REPORT APPENDICES

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

- Appendix A: Audit Committee Update November 2015

6. BACKGROUND PAPERS

There are no background papers for this report.



External Audit Update for the Audit, Governance and Standards Committee of Maidstone Borough Council

Year ended 31 March 2016

23 November 2015

Darren Wells

Director

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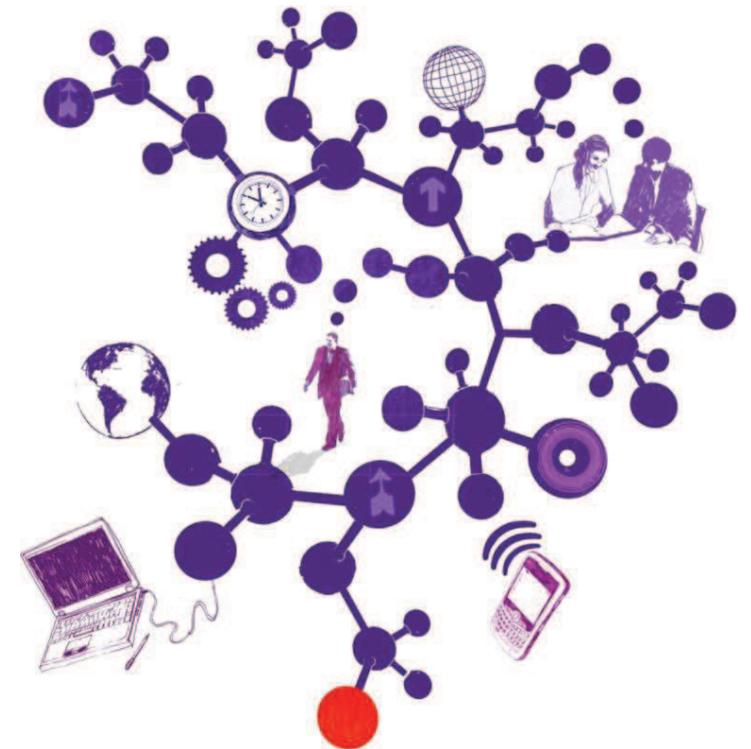
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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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Introduction

This paper provides the Audit, Governance and Standards 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; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Making devolution work: A practical guide for local leaders
-  Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

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 Darren Wells, your Engagement Lead or Keith Hosea, your Audit Manager.

Progress at November 2015

Work	Planned date	Complete?	Comments
<p>2015-16 Accounts Audit Plan 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 your 2015-16 financial statements.</p>	March 2016		We are holding discussions with your finance team to plan the audit of the 2015/16 statements and will bring an Audit Plan to a future meeting of this Committee.
<p>Interim accounts audit Our interim fieldwork visit will include:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing 	January 2016 February/March 2016		We plan to carry out a two-stage visit: one week to update our understanding of your control environment and financial systems; and two weeks subsequently to carry out early detailed testing.
<p>2015 -16 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts 	July 2016		

Progress at November 2015 (continued)

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The NAO has consulted on work to be performed to give a value for money conclusion. Auditors are expected to review one criterion:</p> <p>In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>With three sub-criteria:</p> <ul style="list-style-type: none"> • Informed decision-making • Sustainable resource deployment • Working with partners and other third parties <p>We will carry out an initial risk assessment and report to you further on this and our planned work.</p>	January to March 2016		
<p>2014/15 Certification of claims</p> <p>Our work on your housing benefit subsidy claim is nearing completion. We will report our findings to the January meeting.</p>	In progress	N/A	We will provide a verbal update at this meeting.
<p>Other activity undertaken</p> <p>One of our housing specialists met with your senior officers to discuss your plans in respect of improving housing provision.</p> <p>We have agreed to carry out a risk management workshop with your senior members and officers in December 2015.</p>	December 2015	N/A	

Making devolution work: A practical guide for local leaders

Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

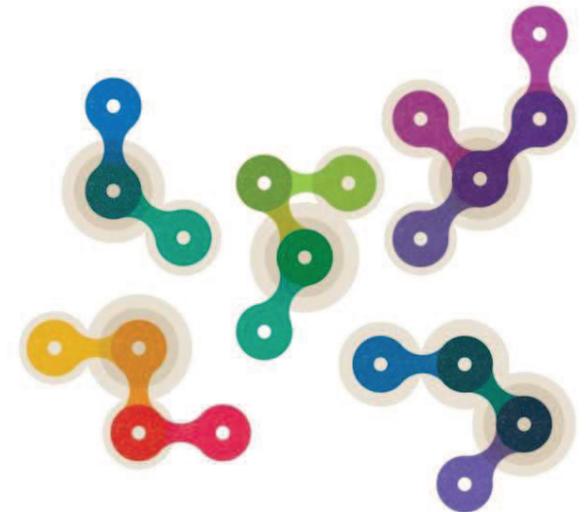
In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

Hard copies of our report are available from your Engagement Lead and Audit Manager



Turning up the volume: The Business Location Index

Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.

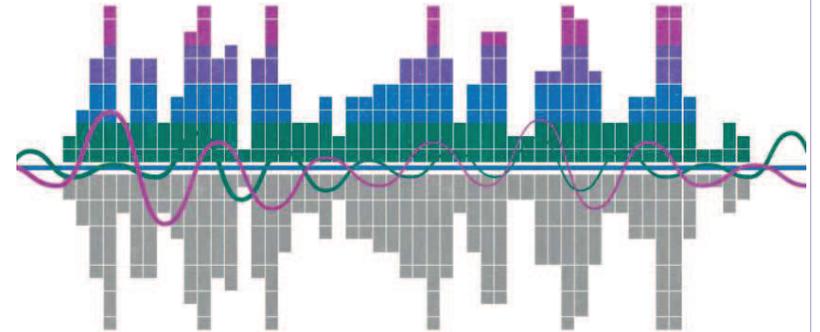
Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

Hard copies of our report are available from your Engagement Lead and Audit Manager



Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton

This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

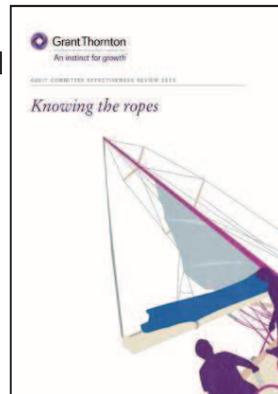
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The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.



Size: 3-5 members is an ideal size for an audit committee

Relevance: audit committee members should be selected based on the skills and experience they bring

Frequency: meetings should be regular and the length should adapt to content

Clarity: the role of the audit committee and its relationship with other committees, should be clearly defined

Communication: papers should strike the balance between detail and length

Ability: training should be provided for audit committee members

Evolution: audit committees should continually develop

The two key things that audit committee members should be asking are:

- 1 What is expected of the audit committee and does it reflect the specific nature of the industry in which the organisation sits?
- 2 Does the audit committee have clear terms of reference in place? Audit committees should set themselves targets for what they want to achieve and define how these will be measured to ensure they are operating effectively.

Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager



George Osborne sets out plans for local government to gain new powers and retain local taxes

Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their LEPs, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

Challenge question

Have members been briefed by officers on the Chancellor's "devolution revolution" announcement and its likely impact on the Council?

Councils must deliver local plans for new homes by 2017

Local government issues

The Prime Minister announced on 12 October that all local authorities must have plans for the development of new homes in their area by 2017, otherwise central government will ensure that plans are produced for them. This will help achieve government's ambition of 1 million more new homes by 2020, as part of the newly announced Housing and Planning Bill.

The government has also announced a new £10 million Starter Homes fund, which all local authorities will be able to bid for. The Right to Buy Scheme has been extended with a new agreement with Housing Associations and the National Housing Federation. The new agreement will allow a further 1.3 million families the right to buy, whilst at the same time delivering thousands of new affordable homes across the country. The proposal will increase home ownership and boost the overall housing supply. Housing Association tenants will have the right to buy the property at a discounted rate and the government will compensate the Housing Associate for their loss.

Challenge question

Have members been briefed by officers on the government's new homes announcements and their likely impact on the Council?

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Improving efficiency of council tax collection

Local government issues

DCLG have published "Improving Efficiency for Council Tax Collection", calling for consultation on the proposals to facilitate improvements in the collection and enforcement processes in business rates and council tax. The consultation is aimed specifically at local authorities, as well as other government departments, businesses and any other interested parties. The consultation document states that council tax collection rates in 2014-15 are generally high (at 97 per cent), however the government wishes to explore further tools for use by local authorities and therefore seeks consultation from local authorities on DCLG's proposals. The consultation closes on 18 November.

The Government proposes to extend the data-sharing gateway which currently exists between HMRC and local authorities. Where a liability order has been obtained, the council taxpayer will have 14 days to voluntarily share employment information with the council to enable the council to make an attachment to earnings. If this does not happen, the Government proposes to allow HMRC to share employment information with councils. This would help to avoid further court action, would provide quicker access to reliable information, and would not impose any additional costs on the debtor. The principle of this data-sharing is already well-established for council taxpayers covered by the Local Council Tax Support scheme, and it would make the powers applying to all council tax debtors consistent. Based on the results of the Manchester/HMRC pilot, Manchester estimate that £2.5m of debt could potentially be recouped in their area alone.

Challenge question

Have members been briefed by officers on the government's council tax collection consultation and the Council's response to it?

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