

# AGENDA

## AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING



Date: Monday 21 November 2016

Time: 6.30 pm

Venue: Town Hall, High Street,  
Maidstone

Membership:

Councillors Adkinson, Coulling (Parish Representative), Daley, English, Fissenden, Garland, McLoughlin (Chairman), Perry, Revell, Mrs Riden (Parish Representative) and Vizzard

---

Page No.

1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members

**Continued Over/:**

---

**Issued on Friday 11 November 2016**

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

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

4.	Disclosures by Members and Officers	
5.	Disclosures of Lobbying	
6.	To consider whether any items should be taken in private because of the possible disclosure of exempt information	
7.	Minutes of the meeting held on 19 September 2016	1 - 8
8.	Committee Work Programme 2016/17	9 - 11
9.	Report of the Head of Policy and Communications - Annual Governance Statement 2015-16, Action Plan Update	12 - 17
10.	Report of the Head of Audit Partnership - Interim Internal Audit & Assurance Report	18 - 40
11.	Report of the Director of Finance and Business Improvement - Treasury Management Half Yearly Review 2016/17	41 - 50
12.	Report of the Director of Finance and Business Improvement - External Auditor's Annual Audit Letter	51 - 65
13.	Report of the Director of Finance and Business Improvement - External Audit Update	66 - 83

## MAIDSTONE BOROUGH COUNCIL

### AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

#### MINUTES OF THE MEETING HELD ON 19 SEPTEMBER 2016

**Present:** Councillor McLoughlin (Chairman) and Councillors Coulling (Parish Representative), Daley, English, Fissenden, Perry, Revell, Mrs Riden (Parish Representative) and Vizzard

**Also Present:** Matt Dean and Darren Wells of Grant Thornton (External Auditor)

19. APOLOGIES FOR ABSENCE

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

20. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

21. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

22. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

23. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

24. EXEMPT ITEMS

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

25. MINUTES OF THE MEETING HELD ON 11 JULY 2016

**RESOLVED:** That the Minutes of the meeting held on 11 July 2016 be approved as a correct record and signed.

26. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

The Team Leader (Corporate Governance) introduced the report of the Head of Legal Partnership updating the Committee on complaints received

under the Members' Code of Conduct during the period 12 November 2015 to 31 August 2016. It was noted that:

- Since the last report to the Committee on 23 November 2015, there had been ten new complaints against sixteen Subject Members. Of the ten complaints received, three related to Borough Councillors and seven related to Parish Councillors.
- As at 31 August 2016, two complaints were at the initial assessment stage, two had been concluded with a finding that there was no breach of the Code of Conduct and four had not been progressed as three had failed the local assessment criteria and one had failed the legal jurisdiction test. The remaining two complaints had been referred to independent investigation, but, following the resignation of both Subject Members the investigations had ceased and the matters closed.
- The Localism Act 2011 repealed the requirement to publish decision notices; therefore, in providing the update to the Committee, the names of the complainant and the Councillor complained about were both kept confidential in accordance with the Data Protection Act 1998.
- In future, update reports on complaints received under the Members' Code of Conduct would be submitted to alternate meetings of the Committee.

In response to questions:

- The Team Leader (Corporate Governance) explained that it would not be in the public interest to use resources to pursue investigations into allegations of misconduct against individuals who had resigned from office as no sanctions could be applied, although in some circumstances the Police/Courts might become involved.
- The Team Leader (Corporate Governance) undertook to (a) clarify under which Section of the Localism Act 2011, the Borough Council was responsible for dealing with complaints that a Parish Councillor within its area had failed to comply with the Code of Conduct adopted by his/her Parish Council and (b) arrange for details to be circulated to all Members of the Committee and to the Parish Council Representatives.

**RESOLVED:** That the report be noted.

27. AUDIT, GOVERNANCE & STANDARDS COMMITTEE ANNUAL REPORT 2015/16

The Head of Audit Partnership presented the Audit, Governance and Standards Committee Annual Report 2015/16. It was noted that:

- The report represented a retrospective review of the activity of the Committee and reflected its terms of reference. It provided assurance that important internal control, governance and risk management issues were being monitored and addressed by the Committee and provided additional assurance to support the Annual Governance Statement.
- The report also included a refreshed programme of development briefings, to be delivered prior to each meeting of the Committee, designed to complement and provide insight into the types of issues that the Committee would be considering over the course of the year.

The Committee felt that the proposed programme of development briefings represented a comprehensive package to address Members' needs, but asked the Officers to consider whether the proposed briefing on commissioning, procurement and contracting could be delivered during 2016/17.

**RESOLVED:**

1. That the Audit, Governance and Standards Committee Annual Report for 2015/16 be approved.
2. **To RECOMMEND to the COUNCIL:** That the Audit, Governance and Standards Committee Annual Report 2015/16, which demonstrates how the Committee discharged its duties during 2015/16, provides assurance that important internal control, governance and risk management issues are being monitored and addressed by the Committee and provides additional assurance to support the Annual Governance Statement, be noted.
3. That the proposed programme of Member development briefings be approved subject to the Officers considering whether the proposed briefing on commissioning, procurement and contracting can be delivered during 2016/17.

28. **WHISTLEBLOWING POLICY**

The Head of Audit Partnership presented the Whistleblowing Policy which had been adapted in response to previous Committee feedback. It was noted that:

- The revised Policy attached as Appendix I to the report of the Head of Audit Partnership had been circulated to all Members of the Council inviting feedback and comments. The comments received were positive and did not suggest any further changes.
- If approved, the Policy would become the centrepiece of a drive to raise awareness with line managers (who, according to research conducted in January 2016, would be the first port of call for staff 90% of the time). Consideration would then be given to further training and dissemination of the Policy as required. Matters raised

through the Policy would be reported back to the Committee initially as part of the standard Mid-Kent Audit reporting in November/December and June/July. However, the Officers would keep this under review if the volume and nature of issues raised suggested alternative reporting cycles and methods would be more beneficial in bringing matters to the attention of Members.

**RESOLVED:** That the Whistleblowing Policy, attached as Appendix I to the report of the Head of Audit Partnership, be approved.

29. AUDITED STATEMENT OF ACCOUNTS 2015/16

The Director of Finance and Business Improvement introduced his report setting out the audited Statement of Accounts for 2015/16 for approval by the Committee in accordance with the Accounts and Audit Regulations, 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 2016. A number of other minor changes had also been made to improve the presentation and clarity of the Statement of Accounts.
- The External Auditor's Audit Findings Report also included a review of Value for Money which concluded that in all significant respects the Council had put in place proper arrangements to secure value for money in its use of resources for the year ended 31 March 2016.
- The External Auditor intended to issue an unqualified opinion on the 2015/16 Statement of Accounts and an unqualified Value for Money conclusion.

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

- In terms of Short Term Debtors and the Provision for Bad Debts, particularly in relation to Council Tax and Business Rate payers, the Revenues and Benefits team had strict follow-up procedures in place if an instalment was not paid on the due date. The collection rate was very high and monitored closely. More information relating to the collection statistics would be circulated to all Members of the Committee and to the Parish Council representatives.
- As long as the tax payer remained liable, the Council would continue to issue reminders and take steps to collect payments. Once a debt was over one year old, a 40% provision would be created for it in the accounts and once it was over six years old, 100% provision would be made for it. The debt would not necessarily be written off, but for accounting purposes, there was a need to recognise the risk in the accounts that it might not be possible to recover the debt. The provision made in the accounts was based on the age profile of the debts, and the revenue system would identify how many debts were

over one year, two years etc. (a percentage figure based on the age of the debts).

- The Revenues and Benefits team would continue to issue reminders and try to reach agreements for payments by instalments and if payments were still being made, the debt would not be written off even if it was twenty years old.
- With regard to the distribution of Business Rates and the treatment of Bad Debts, the Council was required to account for the way it collected Business Rates and a number of forms had to be completed over the course of the year: NNDR1 at the beginning of the year showing the amount the Council expected to collect in Business Rates to the end of the year and NNDR3 showing the amount actually collected in cash terms. The amount paid over to the Government after all adjustments had been made was 50% of the cash collected rather than 50% of the amount notionally due.
- The provision made in the accounts for Bad Debts was reviewed each year and could be reversed. The External Auditor looked at the estimates made for reasonableness, and, as far as the Officers were aware, they had never been found to be overly cautious.
- Where the Council was unable to collect the Business Rates payable, it took a robust approach to their recovery. This involved progressive action following a strict timetable, typically starting with a reminder for non-payment and then escalating, as necessary, to an application to the Courts for a liability order, then instruction of bailiffs, followed by bankruptcy or liquidation.
- Having regard to the percentage of Business Rate debt recovered, there was not much scope to achieve a higher percentage by accelerating the process.
- One of the key findings/conclusions of the External Auditor was that the updated Medium Term Financial Strategy assumed £4,178k of savings over the five year period which would be a considerable challenge for the Council despite its track record in recent years. This was simply an acknowledgement of the scale of the challenge faced by the Council with the caveat that whilst the Council was well placed, its past track record was no guarantee of success in achieving this target.
- The £460k delivered to date through the Council's Commercialisation agenda represented the additional income generated by the individual projects.
- With regard to the compatibility of the Medium Term Financial Strategy and the indicative housing trajectory in the Local Plan submitted for examination, the Local Plan was not a financial document, but assumptions were made in the Medium Term Financial Strategy about increases in Council Tax due to growth in the number

of homes. Whilst the documents were broadly compatible, it was not an exact science, and it was reasonable to take a cautious approach.

- The level of materiality used in planning and performing the audit was 2% of the prior year gross revenue expenditure of the Council (£1,794k). The External Auditor had also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because it was not expected that the accumulated effect of such amounts would have a material impact on the financial statements. The External Auditor had defined this amount to be £89.7k.
- The concept of materiality to provide a level of assurance was well established and 2% was the standard used for local government clients. The application of the concept of materiality allowed the External Auditor to focus on key areas. As well as focusing audit effort, it also influenced the way in which the findings were reported to the Council. If the External Auditor did identify some errors in the financial statements that were cumulatively or individually above the materiality level set out in the Audit Plan, and the Council decided not to amend the statements for those errors, the External Auditor would have to decide whether to qualify the accounts.

**RESOLVED:**

1. That the External Auditor's Audit Findings Report, attached as Appendix I to the report of the Director of Finance and Business Improvement, be noted.
2. That the audited Statement of Accounts 2015/16, attached as Appendix II to the report of the Director of Finance and Business Improvement, be approved.
3. That the Council's Letter of Representation to the External Auditor, attached as Appendix III to the report of the Director of Finance and Business Improvement, be approved.

30. EXTERNAL AUDIT PROCUREMENT

The Director of Finance and Business Improvement introduced his report setting out the options open to the Council for routes to procure a new External Auditor. It was noted that:

- The Council's current contract with its External Auditor was due to expire at the end of 2017/18, and the Council would need to appoint a new Auditor before 31 December 2017. The new Auditor would take on responsibility for examining the 2018/19 financial statements and would deliver their first opinion in July 2019.
- Suppliers of public audit services in local authorities were required to have permission from the Financial Conduct Authority. Currently, these services were provided by five suppliers. More providers might

seek permission as decisions moved closer, but it was unlikely that small local independent firms would be able to meet the FCA's demands, thus limiting the Council's choice of External Auditor.

- The procurement alternatives were as follows:
  - Solo Procurement and Auditor Panels
  - Joint Procurement
  - Outsourced Procurement (the "Sector Led Body") – Procurement via a Specified Person who would have the authority to make Auditor appointment decisions on behalf of those authorities which opted-in to these arrangements.
- Public Sector Audit Appointments Ltd (PSAA) had issued a prospectus setting out its intention to seek designation as a Specified Person. PSAA was an independent, not-for-profit company limited by guarantee. It was established by the Local Government Association and was therefore led by the local authority sector. It already carried out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. PSAA was a not-for-profit company and it stated that any surplus funds from running a local auditor appointment scheme would be returned to scheme members.

The Committee discussed the advantages/benefits and disadvantages/risks associated with the alternative arrangements making reference to the difficulties associated with recruiting and maintaining an Auditor Panel, the loss of control associated with joint procurement and the economies of scale and assured appointment from a nationally accredited panel of auditors associated with outsourced procurement.

In response to questions, it was noted that the PSAA's prospectus stated that in setting up the new arrangements one of its aims was to make Auditor appointments that took account of joint working and shared service arrangements.

The Committee expressed its support for the option of outsourced procurement.

**RESOLVED:**

1. That the latest information on External Audit procurement be noted.
2. **To RECOMMEND to the COUNCIL:** That the option of outsourced procurement, as set out in paragraph 3.9 of the report of the Director of Finance and Business Improvement, be adopted.

31. COMMITTEE WORK PROGRAMME 2016/17

The Committee considered its work programme for 2016/17.

**RESOLVED:** That the Audit, Governance and Standards Committee work programme for 2016/17 be noted.

32. DURATION OF MEETING

6.30 p.m. to 7.45 p.m.

**MAIDSTONE BOROUGH COUNCIL**

# **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

**Work Programme**

**2016/17**



Date of Meeting	Title of Report	Contact Officer
11 July 2016	<b>Annual Governance Statement 2015/16 and Local Code of Corporate Governance</b>	Angela Woodhouse, Head of Policy and Communications
11 July 2016	<b>Annual Internal Audit Report and Opinion 2015/16</b>	Rich Clarke, Head of Audit Partnership
11 July 2016	<b>Speaking Up Policy (Whistleblowing)</b>	Rich Clarke, Head of Audit Partnership
11 July 2016	<b>Treasury Management Annual Review 2015/16</b>	John Owen, Finance Manager
11 July 2016	<b>External Audit Update July 2016</b>	Ellie Dunnet, Chief Accountant
11 July 2016	<b>External Audit Fee Letter 2016/17</b>	Ellie Dunnet, Chief Accountant
11 July 2016	<b>Statement of Accounts 2015/16</b>	Ellie Dunnet, Chief Accountant
19 September 2016	<b>Complaints Received Under the Members' Code of Conduct</b>	John Scarborough, Head of Legal Partnership
19 September 2016	<b>AGS Committee Annual Report 2015/16</b>	Rich Clarke, Head of Audit Partnership
19 September 2016	<b>Whistleblowing Policy</b>	Rich Clarke, Head of Audit Partnership
19 September 2016	<b>External Auditor's Audit Findings Report 2015/16 and Statement of Accounts 2015/16</b>	Ellie Dunnet, Chief Accountant
19 September 2016	<b>External Audit Procurement</b>	Mark Green, Director of Finance and Business Improvement
21 November 2016	<b>Annual Governance Statement Action Plan Update</b>	Angela Woodhouse, Head of Policy and Communications
21 November 2016	<b>Mid-Kent Audit Interim Internal Audit Report 2016/17</b>	Rich Clarke, Head of Audit Partnership

21 November 2016	<b>Treasury Management Half Yearly Review 2016/17</b>	John Owen, Finance Manager
21 November 2016	<b>External Auditor's Annual Audit Letter</b>	Ellie Dunnet, Chief Accountant
21 November 2016	<b>External Audit Update November 2016</b>	Ellie Dunnet, Chief Accountant
16 January 2017	<b>Treasury Management Strategy 2017/18</b>	John Owen, Finance Manager
16 January 2017	<b>Review of Risk Assessment of Budget Strategy 2017/18 Onwards</b>	Mark Green, Director of Finance and Business Improvement
16 January 2017 <b>To be included in Review of Risk Assessment of Budget Strategy 2017/18 Onwards</b>	<b>Savings Delivered to Date Through Shared Service Arrangements Compared to Targets and Update on Progress being Made on Review of Effectiveness of Shared Services.</b>	Mark Green, Director of Finance and Business Improvement
16 January 2017 <b>To be included in Review of Risk Assessment of Budget Strategy 2017/18 Onwards</b>	<b>Risks Associated with the Council's Commercialisation Projects</b>	Mark Green, Director of Finance and Business Improvement
16 January 2017	<b>Grant Claim Certification</b>	Acting Head of Revenues and Benefits
16 January 2017	<b>External Audit Update January 2017</b>	Ellie Dunnet, Chief Accountant
16 January 2017	<b>Complaints Received Under the Members' Code of Conduct</b>	Estelle Culligan, Interim Head of Legal Partnership
20 March 2017	<b>Internal Audit Plan 2017/18</b>	Rich Clarke, Head of Audit Partnership
20 March 2017	<b>External Audit Update March 2017</b>	Ellie Dunnet, Chief Accountant
20 March 2017	<b>External Auditor's Audit Plan 2016/17</b>	Ellie Dunnet, Chief Accountant
TBA	<b>HR Assessment of Benefits of IIP Accreditation</b>	
TBA	<b>Periodic Updates on Matters Raised through the Whistleblowing Policy</b>	Rich Clarke, Head of Audit Partnership

# Agenda Item 9

## **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

**21 November 2016**

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

**Yes**

### **Annual Governance Statement Action Plan 2016-17 Update**

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

#### **This report makes the following recommendations to this Committee:**

1. The Annual Governance Statement Action Plan 2016-17 update be noted.

#### **This report relates to the following corporate priorities:**

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

#### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	21 November 2016

# Annual Governance Statement Action Plan 2016-17 Update

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 At its meeting on 11 July 2016 the committee approved the Annual Governance Statement for 2015-16 and action plan for 2016-17. The purpose of this report is to provide the committee with an updated action plan.
  - 1.2 The report provides an update on the actions that have 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 were identified for action including:
  - Training and communication on information management
  - Resident involvement in decision making
  - Risk Management
  - Audit Reviews with weak assurance
- 4.3 Action has been taken in all areas as set out in Appendix A.
- 4.4 A communication and engagement strategy has been agreed by Policy and Resources Committee focussed on promoting pride in the borough. A budget roadshow and on-line survey has been undertaken to gain residents' views on our front facing services. This will inform our budget proposals for 2017/18 and the strategic plan refresh.

- 4.5 Work has continued on risk management, including establishing risk appetite. The most recent update report went to Policy and Resources Committee at its meeting on 26 October. Audit Governance and Standards Committee members will be briefed on progress before the Committee’s meeting on 21 November.
- 4.6 Audit recommendations arising from two out of the three reviews that identified weak assurance remain to be implemented, although action has been taken across all three areas covered by the reviews. The interim report from Audit on this agenda contains more information on these reviews.

**5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 5.1 The updated action plan has been reported to and informed by the Corporate Governance Group. The Committee is invited to consider the report.

**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.

**7. CROSS-CUTTING ISSUES AND IMPLICATIONS**

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	High standards of corporate governance are integral to achieving our corporate priorities.	Head of Policy and Communications
<b>Risk Management</b>	The annual governance statement has identified actions on risk management	Head of Policy and Communications
<b>Financial</b>	Good governance is integral to good financial arrangements	Section 151 Officer & Finance Team
<b>Staffing</b>	The action plan includes ensuring staff are aware of our priorities.	Head of Policy and Communications
<b>Legal</b>	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	Interim Deputy Head of Legal Partnership

	to ensure a programme of continuous improvement.	
<b>Equality Impact Needs Assessment</b>	No implications from this action plan	Head of Policy and Communications
<b>Environmental/Sustainable Development</b>	No implications from this action plan	Head of Policy and Communications
<b>Community Safety</b>	No implications from this action plan	Head of Policy and Communications
<b>Human Rights Act</b>	No implications from this action plan	Head of Policy and Communications
<b>Procurement</b>	No implications from this action plan	Head of Policy and Communications
<b>Asset Management</b>	No implications from this action plan	Head of Policy and Communications

## **8. REPORT APPENDICES**

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

- Appendix A: Annual Governance Statement Action Plan 2016-17 Update

## **9. BACKGROUND PAPERS**

None

Annual Governance Statement Action Plan for 2016-17 - Update

<b>Governance Issue</b>	<b>Action</b>	<b>Update on action taken so far</b>
Training and Communication on Information Management	Online learning modules rolled out across the council Briefing at team meetings Communication Plan for Information Management Implemented	The interim Deputy Head of Legal Partnership is finalising the on-line learning module for Data Protection. This will be rolled out from 1 <sup>st</sup> January 2017 and will be mandatory for all staff.
The residents survey identified that more work needed to be done on developing residents involvement in decision making and how informed residents feel about our services	An action plan will be developed and approved by Policy and Resources Committee, a workshop has been held and analysis of the results conducted  A further workshop is planned with Councillors and Communications Team in July	A follow up workshop was held with all councillors in July. Following the workshop a communication and engagement strategy, focussed on promoting pride in the borough, was developed and approved by Policy and Resources at its meeting on 26 October 2016. This includes plans for how residents can influence decisions affecting their local area. A new member sounding board for communications is also being established.
Establishing Risk Appetite	Risk Appetite reviewed and agreed by Policy and Resources Committee	Work continues on risk management. An update report was presented to Policy and Resources Committee at its meeting on 26 October. Audit Governance and Standards

		<p>Committee members will be briefed on progress before the Committee's meeting on 21 November.</p>
<p>Audit Reviews with weak Assurance.</p>	<p>Action Plans and implementation dates have been put in place and agreed. Audit reviews with weak assurance in 2015-16:</p> <ul style="list-style-type: none"> <li>• Safeguarding</li> <li>• Business Continuity</li> <li>• Mote Park and Cobtree Cafe</li> </ul>	<p>Safeguarding now rated sound – the safeguarding policy has now been approved by Community Housing and Environment Committee and will be rolled out across the council with appropriate training.</p> <p>Business Continuity is on track for the implementation of recommendations.</p> <p>Mote Park and Cobtree Café – 14 recommendations were made, of which 11 have been completed, 1 is overdue and 2 are not yet due. Until the remaining 3 recommendations are implemented the assurance rating will remain at weak.</p>

# Agenda Item 10

## **Audit, Governance & Standards 21 November 2016 Committee**

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

**Yes**

### **Interim Internal Audit & Assurance Report**

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

#### **This report makes the following recommendations to this Committee:**

1. That the Committee **notes** progress on achieving the 2016/17 internal audit and assurance plans and findings so far.

#### **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 deals with the Council's governance arrangements which underpin its abilities to effectively achieve corporate priorities.

#### **Timetable**

<b>Meeting</b>	<b>Date</b>
Committee (Audit, Governance & Standards Committee)	21 November 2016

# Interim Internal Audit & Assurance Report

## **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 This Committee approved the 2016/17 audit plan on 21 March 2016. We pledged in that plan to bring back to Members two reports on progress against that plan, one about six months in with progress to date and our year end report and opinion in June 2017.
  - 1.2 This is the first of those reports and summarises progress up to 1 November 2016, including wrapping up the picture on 2015/16 work concluded too late for inclusion with our 2015/16 annual report in June.
- 

## **2. INTRODUCTION AND BACKGROUND**

- 2.1 The report sets out the findings of audit reviews and other work completed up to the production date of this report. It includes both detailed findings and overall summary.
- 

## **3. AVAILABLE OPTIONS**

- 3.1 The report asks the Committee to note progress and findings so far.
- 

## **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 The report is provided for information rather than requesting specific action.
- 

## **5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 5.1 Findings from individual audit projects are discussed and agreed with the audit sponsor (usually the relevant Head of Service) before finalising a report. This report in total has been circulated to the Director of Finance and Business Improvement and he commented: "The relevant senior officers are expected to act promptly to address recommendations set out in internal audit reports."
  - 5.2 The content and presentation of the report is in line with Member feedback to interim and final reports presented previously.
- 

## **6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 6.1 We will continue progress on the plan and seek to provide our final report to this Committee at its meeting in June 2017.

---

## 7. CROSS-CUTTING ISSUES AND IMPLICATIONS

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	The report is provided for information rather than decision and so does not present cross-cutting issues and implications.	Rich Clarke Head of Audit Partnership
<b>Risk Management</b>		
<b>Financial</b>		
<b>Staffing</b>		
<b>Legal</b>		
<b>Equality Impact Needs Assessment</b>		
<b>Environmental/Sustainable Development</b>		
<b>Community Safety</b>		
<b>Human Rights Act</b>		
<b>Procurement</b>		
<b>Asset Management</b>		

## 8. REPORT APPENDICES

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

- Appendix I: Interim Internal Audit & Assurance Report 2016/17

---

## 9. BACKGROUND PAPERS

Full audit reports on any topic reports are available to Members on request.

**MID KENT AUDIT**

# **Interim Internal Audit & Assurance Report**

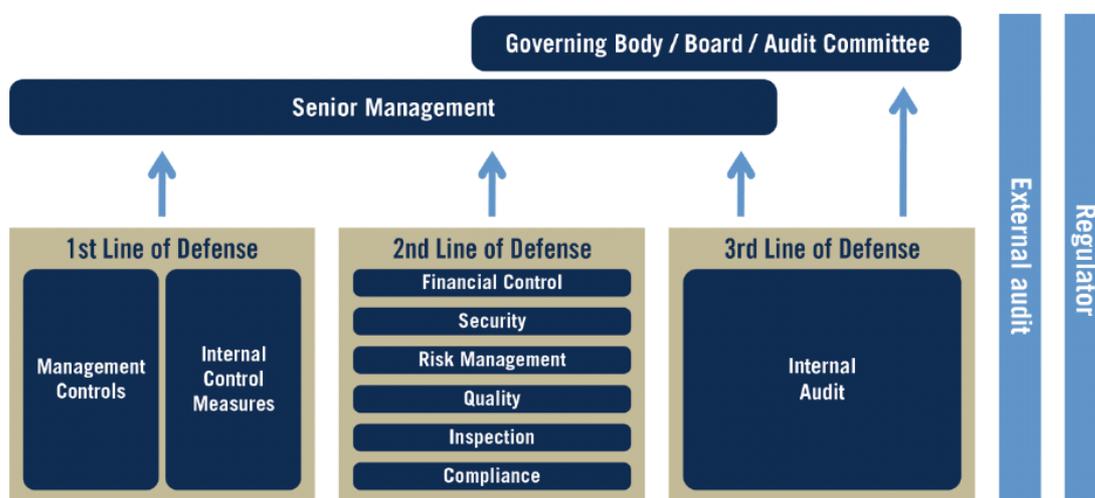
**November 2016**

**Maidstone Borough  
Council**



## Introduction

1. Internal audit is an objective and independent assurance and consulting service designed to enhance and protect the Council’s values and priorities. It helps the Council by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.
2. Regulation 5 of the Accounts and Audit Regulations 2015 shows the authorities must keep an internal audit service. That service must “*evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*”.
3. We base our work on the [Public Sector Internal Audit Standards](#) [the Standards]. These stem from, and extend, the Institute of Internal Audit’s Global Standards, Code of Ethics and International Professional Practices Framework. This means internal audit at the Council conforms to the same demands present across similar services throughout the world in public, private and voluntary organisations.
4. The Standards demand an annual opinion from the Chief Audit Executive (the Head of Audit Partnership fulfils this role at the Council). The Opinion considers internal control, corporate governance and risk management. It is a key part of the overall assurance Members and Officers of the Council draw on when evaluating governance. The diagram below<sup>1</sup> shows internal audit’s position alongside other sources of assurance:



5. This report updates Members on progress and findings so far as we complete the Audit Plan approved by this Committee in March 2016.

<sup>1</sup> Taken from the Institute of Internal Audit’s Professional Practices Framework. Like all IIA publications intended for a global audience, it uses US spelling.

## Internal Control

6. Internal control is how the Council ensures achievement of its objectives. In particular, internal control achieves and displays effectiveness and efficiency, reliable financial reporting and compliance with law, rules and policies. It incorporates both financial and non-financial aspects.
7. We gather evidence to support this part of the Opinion principally through completing the reviews set out in our audit plan. Besides considering the findings of each review individually we must assess whether there are any overall messages we need to report to Members and Senior Management.
8. Our work to complete the 2016/17 plan is in progress and we will need to be substantially closer to conclusion before forming the Opinion. However, at this interim point, we have emerging concerns on strength and resilience in some internal controls. Although the weaknesses we have identified vary within each review, they share a common thread in that they principally represent issues around the second line of defence. This covers those controls which work to identify and correct any failures in the Council's direct management controls before they can expose the Council to risk or harm. Some of our findings so far signal that certain of these second line controls are not working consistently or comprehensively.
9. These weaknesses apply specifically to areas where the Council has entered new areas of business (such as *Mote Park Café*), manage new ways of working (*Section 106*) or working through third parties (*Hazlitt Theatre*).
10. We have shared this overall message with Senior Management who had independently identified some of the key weaknesses. Management are already acting to address these areas, and will take further action in response to their own review and audit recommendations. Inevitably, these measures will take some time before their effects show through in our audit findings.

## Audit Plan Progress

11. The table below shows progress in days delivered against the plans

Type of work	Plan Days	To Oct 16	To Oct %	Forecast Y/E	Forecast %
Assurance Projects	314	111	35%	316	100%
Concluding 15/16	0	67	n/a	67	n/a
Other Work	186	130	70%	190	102%
<b>Total (excl 15/16)</b>	<b>500</b>	<b>238</b>	<b>48%</b>	<b>506</b>	<b>101%</b>

## Audit Review Findings so far

12. The table below summarises audit project findings and outturn up to the date of this report. Where there are material matters finished between report issue and committee meeting we will provide a verbal update. (\* = days split between partners, MBC only shown).

	Review Type	Title	Plan Days	16/17 Days	Report Issue	Assurance Rating	Notes
<b>2015/16 Assurance Projects Completed After 1 April 2016</b>							
	Operational	Service Improvement	15	1	Apr-16	<b>STRONG</b>	Reported to Members Jul-16
	Operational	Licensing	15	1	Apr-16	<b>SOUND</b>	Reported to Members Jul-16
	Operational	ICT Network Controls	5*	5*	Apr-16	<b>STRONG</b>	Reported to Members Jul-16
	Operational	Community Safety	15	3	Apr-16	<b>SOUND</b>	Reported to Members Jul-16
	Operational	Mote Park & Cobtree Café	15	4	May-16	<b>WEAK</b>	Reported to Members Jul-16
	Finance	Payroll	5*	4*	May-16	<b>STRONG</b>	Reported to Members Jul-16
	Operational	Learning & Development	8*	7*	May-16	<b>SOUND</b>	Reported to Members Jul-16
	Operational	Garages	15	10	Jun-16	<b>SOUND</b>	Reported to Members Jul-16
	Operational	Litter Enforcement	13	11	Jun-16	<b>SOUND</b>	Reported to Members Jul-16
I	Governance	Good Governance Framework	5*	4*	Jul-16	<b>n/a</b>	
II	Operational	Section 106 Agreements	15	17	Aug-16	<b>WEAK</b>	
<b>Planned 2016/17 Assurance Projects Completed to Date</b>							
III	Finance	Housing Benefits	11*	11*	Oct-16	<b>SOUND</b>	
IV	Operational	Hazlitt Centre Contract Monitoring	15	15	Nov-16	<b>WEAK</b>	
<b>Planned 2016/17 Assurance Projects In Progress</b>							
	Finance	Treasury Management	15	2			Planning stage
	Operational	Elections	15	2			Planning stage
	Operational	Park & Ride	15	1			Planning stage
	Governance	Corporate Projects Review	10	1			Planning stage
	Operational	ICT Procurement	15	1			Planning stage

	Review Type	Title	Plan Days	16/17 Days	Report Issue	Assurance Rating	Notes
	Operational	Residents' Parking	8*	1*			Planning stage
	Governance	Performance Management	10	4			Fieldwork stage
	Operational	Public Conveniences	15	10			Fieldwork stage
	Operational	Discretionary Housing Payments	10	9			Fieldwork stage
	Operational	Facilities Management	15	11			Draft Report Stage
<b>Additional 2016/17 Assurance Projects</b>							
	Governance	Corporate Health & Safety	n/a	40			Draft Report Stage
<b>Planned 2016/17 Assurance Projects Yet To Begin</b>							
	Finance	Payroll	5*				
	Finance	Accounts Payable	10				
	Finance	General Ledger: Journals	15				
	Governance	Freedom of Information	15				
	Governance	ICT Controls & Access	8*				
	Governance	Corporate Governance	10				
	Operational	Crematorium	15				
	Operational	Tourism	15				
	Operational	Community Safety Unit	15				
	Operational	Public Health	15				
	Operational	Building Control Operations	15				
<b>Planned 2016/17 Assurance Projects Postponed or Cancelled</b>							
	Operational	HR Policy Compliance	15	1			Held over until 2017/18 owing to management capacity and pursuit of Investors in People accreditation
	Operational	Land Charges	15	0			Held over until 2017/18 to allow service to establish following division of Planning Support back to TWBC
	Operational	Parks & Open Spaces	15	2			Primary objectives moved to parking review as Mote Park Season Tickets administration role moved. Further review in 2017/18 will examine Open Spaces strategy.

**I: Good Governance Framework Review**

- 13. Our review against the Framework confirms all 4 Councils are on course to meet each of its 7 principles before preparing their 2016/17 Governance Statements. We also identified several notable examples of good governance at each Council.
- 14. However, some steps would further help each Council to bring their existing governance approaches up-to-date or raise their profile. One example is to consider the currency of corporate policies and update or recirculate where needed.
- 15. During the review, we identified the following areas of notable practices at each Council:

Notable practice	Areas for improvement
<p><b>ABC</b></p> <ul style="list-style-type: none"> <li>- Clear and financed approach for addressing fraud and corruption</li> <li>- Review of medium term financial plans</li> <li>- Good succession planning and officer development</li> </ul>	<p><b>ABC</b></p> <ul style="list-style-type: none"> <li>- Limited benchmarking at corporate level</li> <li>- Broadening scope of risk management across the Council</li> </ul>
<p><b>MBC</b></p> <ul style="list-style-type: none"> <li>- Well managed transition to Committee governance in 2015/16</li> <li>- Information governance approach</li> </ul>	<p><b>MBC:</b></p> <ul style="list-style-type: none"> <li>- Counter fraud policies and approach</li> <li>- Limited benchmarking at corporate level</li> <li>- Setting in risk management into decision making and defining risk appetite</li> </ul>
<p><b>SBC</b></p> <ul style="list-style-type: none"> <li>- Collaborative working with external groups and youth forum</li> <li>- Risk and performance management</li> <li>- Actively seeks benchmarking, peer review and external accreditation for continuing corporate learning.</li> </ul>	<p><b>SBC</b></p> <ul style="list-style-type: none"> <li>- Counter fraud policies and approach</li> <li>- Increasing Member training attendance</li> </ul>
<p><b>TWBC</b></p> <ul style="list-style-type: none"> <li>- Good external links.</li> <li>- Member skills gap analysis.</li> <li>- Project management approach.</li> </ul>	<p><b>TWBC:</b></p> <ul style="list-style-type: none"> <li>- Counter fraud policies and approach</li> <li>- Service planning and operational risk management</li> </ul>

- 16. Before preparing the 2016/17 Governance Statement, each council should consider a more detailed self-assessment against the Framework’s key principles

## II: Section 106 Agreements

17. We conclude based on our audit work that the service has **Weak** controls in operation to manage the risks for recording and monitoring Section 106 Agreements.
18. We undertook our work at a transitional time for the service. It has already identified a need to improve its procedures to prepare for the Community Infrastructure Levy (CIL) and implement its software (Exacom).
19. Our appraisal of the Exacom system identified that, once implemented, it can address several weaknesses in current control design. In particular it will improve resilience and lessen the heavy reliance currently placed on the case knowledge of the s106 Monitoring Officer.
20. We identified concerns on monitoring spend by dates, where the Council have had to return funds to developers unused with further balances identified at risk. We also identified opportunities to improve how the Council releases funds for 3<sup>rd</sup> party contributions and provide better governance on project delivery.
21. Our work also considered operation of shared arrangements with Swale BC. Our report includes recommendations to formalise the agreement and so give the Council greater security and certainty in management.

## III: Housing Benefits

22. We conclude based on our audit work that Housing Benefit has **Sound** controls in place to manage its risks and support its objectives.
23. Our previous review of the Housing Benefit system in May 2015 found effective controls in operation. Since then the Council has made only minor updates and so design remains robust. Our testing in this review identified those controls also remain effectively operated.
24. One area of more significant change is allowing claimants to present more information online. We are satisfied design and operation of controls for online submission is effective.
25. We identified some areas for the service to improve, including clarifying the appeals process and in transferring claimants onto Universal Credit.

#### IV: Hazlitt Centre Contract Monitoring

26. We conclude based on our audit work that there are **Weak** controls in operation within the service to monitor the Hazlitt Arts Centre contract. We cannot therefore currently say whether the provider (Parkwood Leisure) is managing and operating the Hazlitt in accordance with Contract. We provide the definitions of our assurance ratings at appendix II.
27. Parkwood Leisure currently runs the Hazlitt Theatre on a contract awarded by the Council in 2013. The contract, which runs until 2028, includes comprehensive measures to allow the Council to survey and assess theatre management and performance. The measures include arrangements to deliver oversight of, among other areas, building maintenance, profitability, business planning and complaints handling.
28. However, our work identified these arrangements have limited effect in practice, severely weakening the Council's oversight into the theatre's management. For example, we found the Council has not sought a business plan for the Theatre, confirmed health and safety arrangements or settled how Parkwood should record and report its performance. Most significantly, we identified serious problems with regards to building maintenance. The Theatre's fire doors – assessed as unfit by ROSPA following an inspection in April 2016 – remained below required standards when we undertook fieldwork in October. This fact alone exposes theatre patrons to such significant risk that we raised it immediately with senior management as a critical recommendation.

## Audit Recommendations

- 29. Our approach to recommendations means at the end of each report we agree with management an action in response and a date for implementation. We then follow up recommendations individually when they fall due, compiling results together each quarter in a report to Senior Management.
- 30. In the first half of 2016/17 we raised a **CRITICAL** recommendation related to our work on reviewing *Hazlitt Centre Contract Monitoring*.

<b>R1: Fire Doors</b>	<b>Priority 1: Critical</b>
<p><b>Resolve the findings of the ROSPA Fire Risk Assessment</b></p> <p>The Council has a duty to protect visitors to the building. Taking swift action to address the significant issues around the first risk assessment with ensure the safety of patrons of the Theatre.</p>	

- 31. Consistent with this priority level we raised the matter immediately with management. We will update Members on progress towards implementation through our usual reporting.
- 32. Where we originally reported a **Weak** assurance rating, we also revisit this rating each quarter. Note that we have issued no **Poor** assurance rating reports at the Council. We consider whether management has made enough progress through fulfilling recommendations to resolve concerns behind the adverse assurance rating. When we believe management have made enough progress to materially minimise the risk, we alter our assurance rating to **Sound**. However we continue following up outstanding recommendations until completed.
- 33. Our most recent reporting considered recommendations due before 1 July 2016. The table below summarises progress.

Project and original assurance rating (W/So/Str)	Agreed Actions	Falling due before 1/10/16	Actions Completed	Outstanding Actions past due date	Actions Not Yet Due
<b>Projects with actions brought forward from 2015/16 and completed during 2016/17</b>					
Accounts Payable: <b>So</b>	1	1	1	0	0
Accounts Receivable: <b>So</b>	2	2	2	0	0
Housing Options: <b>W</b>	4	4	4	0	0
<b>Projects with actions to carry forward into the rest of 2016/17 and beyond</b>					
Members' & Officers' Interests: <b>W</b>	8	7	7	0	1
Members' Allowances & Expenses: <b>So</b>	2	1	1	0	1
Budget Setting: <b>So</b>	3	2	2	0	1
Procurement: <b>So</b>	2	0	0	0	2
Business Continuity: <b>W</b>	9	2	2	0	7
Safeguarding: <b>W</b>	12	7	7	0	5
Temporary Accommodation: <b>So</b>	4	1	1	0	3
Licensing: <b>So</b>	3	0	0	0	3
Community Safety: <b>So</b>	7	0	0	0	7
Litter Enforcement: <b>So</b>	5	0	0	0	5
Garage: <b>So</b>	6	0	0	0	6
Section 106: <b>W</b>	7	0	0	0	7
Mote Park & Cobtree Café: <b>W</b>	14	12	11	1	2
<b>TOTAL</b>	<b>89</b>	<b>39</b>	<b>38</b>	<b>1</b>	<b>50</b>
		<b>44%</b>	<b>43%</b>	<b>1%</b>	<b>56%</b>

34. We are currently reviewing recommendations for implementation during the second quarter of 2016/17 (those due before 1 October 2016). We will report to Management on progress towards the end of November and include results in our usual reporting to Members.
35. Note the table above excludes reviews which did not feature recommendations for action (such as the *Good Governance* review). The table also excludes reviews issued before this report but where no recommendations were due in quarter 1 2016/17 (such as *Hazlitt Centre Contract Management*).
36. The set of reviews we are following-up through the first quarter of 2016/17 includes 6 we assessed as providing only **Weak** assurance. The table below describes progress to date in each area:

Review	Final Report Issued	Commentary
Housing Options	May-14	Re-assessed as <b>Sound</b> February 2015. All recommendations now implemented.
Members' & Officers' Interests	Mar-15	Re-assessed as <b>Sound</b> September 2015. One remaining recommendation to be considered in quarter two 16/17.
Safeguarding	Oct-15	Re-assessed as <b>Sound</b> September 2016. Some recommendations remain on rolling out suitable training due for implementation in quarter 2 2016/17.
Business Continuity	Mar-16	Progress made on some recommendations, but remains a need to communicate and test a comprehensive plan. Implementation scheduled during quarter 3 2016/17.
Mote Park & Cobtree Café	May-16	Insufficient progress made towards implementing recommendations to consider re-assessment, including continued discrepancies in takings reconciliations. Further review scheduled in quarter 2.
Section 106 Agreements	Aug-16	First tranche of recommendations due for implementation quarter 2 2016/17

## Corporate Governance

37. Corporate governance is the system of rules and practices that direct and control the Council.
38. We gain 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.
39. We attend the Council's Information Governance and Corporate Governance Groups. We also comment on other decisions and papers according to the Council's governance practices.
40. During the year we also undertook a specific review examining the Council's position for compliance with the new Code of Corporate Governance published by CIPFA/SOLACE in April 2016. We report the main conclusions of that review earlier in this report.

## Counter Fraud & Corruption

41. We consider fraud and corruption risks in all of our regular audit projects as well as undertaking direct work to assess and support the Council's arrangements.
42. The Cabinet Office is preparing a set of Counter Fraud Standards similar to the Public Sector Internal Audit Standards (PSIAS). Unlike the PSIAS, these standards will not be compulsory in local government. However they will represent a significant signal of 'best practice' for counter fraud arrangements in the broader public sector.
43. Once published, we will review the Counter Fraud Standards and use them as part of an exercise to refresh the breadth of the Council's counter fraud policies. These include the overall Counter Fraud Strategy, plus approaches to tackling bribery, corruption and money laundering. We expect to bring those policies to this Committee as a set sometime in the new year dependent on the timing of the Cabinet Office publishing its standards.

## **Investigations**

44. We are undertaking a significant counter fraud investigation at the Council on a matter which arose following a referral. As that investigation is in progress we cannot share details now, but we have kept senior management informed of developments and offered advice on control weaknesses identified. Subject to developments, we will include further information for Members in our annual report.

## **Whistle-blowing**

45. Following support and approval from this Committee, the Council's new Whistleblowing Policy is in place from September 2016. This new policy brings the Council up-to-date with current legislation and best practice, addressing the concerns detailed in our report of January 2016.
46. The Policy is now available online and the dedicated anonymous reporting site and telephone line described in the Policy are active.
47. We launched the Policy to staff by Wakey Wakey (the Council's newsletter delivered weekly to all staff) and at Staff Forum in mid-November. We are also preparing accompanying an e-Learning module and have updated the relevant section within the Staff Handbook given to all new starters.
48. A key part of the new arrangements is to ensure transparency in reporting to Management and Members what issues arise from staff concerns. Therefore we will include further details, including a breakdown of issues raised (where we are free to do so) within our annual report.

## **National Fraud Initiative**

49. The National Fraud Initiative (NFI) is a compulsory national exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Previously, the Audit Commission ran NFI but, following its abolition, responsibility passed to the Cabinet Office.
50. The NFI works on a two-year cycle which involves the release of matches (most recently in January 2015) for local authorities and others to look into. Each match represents a finding which could, potentially, point to a fraud or error but needs further investigation to confirm. The table below shows progress so far on matches from the 2015 release.

Dataset	Matches	Complete	In Progress	% Examined
Creditors	870	408	0	47%
Housing Benefit Claimants	1,233	1,057	90	86%
Insurance Claimants	4	4	0	100%
Payroll	11	11	0	100%
Taxi Drivers	5	3	2	60%
Council Tax SPD	2,223	1,960	261	88%
<b>Total</b>	<b>4,346</b>	<b>3,443</b>	<b>353</b>	<b>79%</b>

51. We have already reviewed all ‘high priority’ matches identified by the Cabinet Office (those viewed, from their experience, as being particularly likely to identify fraud or error). The remaining matches are lower priority but we will still examine them with the aim of completing the exercise before release of new data.
52. From review of the 3,443 matches completed so far we have not identified any circumstances prosecutable as fraud but have found **55** cases of error with a total value of **£23,029**. This is an average of £419 per error, or a return of £6.70 for every individual match examined.
53. The Cabinet Office plan to release the next set of matches in January 2017 and we are co-ordinating the Council’s approach to collecting and uploading data. This work includes ensuring the Council publishes proper fair use notices so it can lawfully upload personal data. That notice is now on the Council’s website [here](#).
54. In November 2016 the Cabinet Office published its [NFI National Report](#). The report summarises findings from the exercise across the UK and includes data submitted by the Council. The national picture it describes, across the areas relevant to the Council, we summarise in the table below:

Dataset	Example match	# Outcomes	£ Recovered
Creditors	Trader submits duplicate invoice	3,448	£4.5m
HB Claimants	Failing to declare a change of circumstance	6,606	£39.2m
Payroll	Working while claiming sickness	109	£5.0m
Council Tax SPD	Failure to qualify as living with other adults	37,825	£37.4m
<b>Total</b>		<b>47,988</b>	<b>£86.1m</b>

# Risk Management

- 55. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
- 56. The Council recognised the need to improve its risk management arrangements last year, and in June 2015 the Policy and Resources Committee (PRC) approved and adopted a refreshed risk management framework, incorporating detailed procedures and clearer guidance on how to define impact and likelihood levels for risk. Following that approval, we have been working with the Council to implement, embed and coordinate the effective running of the risk process.
- 57. Since our last update to this Committee in July 2016 we have been meeting with risk owners across the Council and working with services to update the *comprehensive risk register* and to improve the quality of risk information available to the Council.
- 58. In accordance with the framework, risk updates are reported to Corporate Leadership Team (CLT) quarterly and to PRC twice a year. The most recent update was reported in **October 2016**. This report included an update on the assessment of 10 corporate level risks, along with an update of significant risks identified through operational risk assessments. In order to maintain effective oversight of risks, the corporate level risks will feature on all future reports to PRC, along with details on the actions being taken to manage impact and likelihood of those highest scoring risks.

## Corporate Risk Profile

- 59. This matrix shows each of the corporate risks and plots them onto the risk matrix based on the highest impact and overall likelihood:

Likelihood	5					
	4				R1 R2	
	3				R4 R5	R3
	2		R8 R9	R7		R6
	1			R10		
		1	2	3	4	5
		Impact				

- R1: Lack of progress on transport infrastructure**
- R2: Increasing difficulty in recruiting & retaining skilled staff**
- R3: Significant commercial failure**
- R4: Not agreeing local plan**
- R5: MKIP fails to develop a coherent vision for its future**
- R6: Further financial restriction**
- R7: Over cautious administration**
- R8: Demographic change**
- R9: Slow or inaccurate decision making**
- R10: IT requirements progress faster than budget allows**

60. The next stage will be for corporate level risk owners (a member of CLT supported by a Head of Service) to identify planned actions to address each of the risks, and then to re-assess impact and likelihood. This will enable us to report changes to the risk profile, and escalate where necessary, risks that fall above the appetite level of the Council (currently those risks in the red and black area on the matrix).
61. Further work planned this year includes working with the Council's Policy Team to integrate risk and service planning, working with CLT and Members on formulating a risk appetite statement, and updating the risk implication process for Council decision making. We will continue to report risk information and outcomes to Audit, Governance and Standards Committee and through Policy and Resources Committee throughout the year.

# Mid Kent Audit Service Update

## Team Update

62. In the first half of 2016/17 we bade farewell to one of our trainee auditors who left the partnership to change career into healthcare. However, following a full recruitment exercise drawing 37 applications we appointed Louise Taylor, previously our team administrator, to the Trainee position. Louise originally joined the team as part time administrator in November 2015 and has integrated well and shown great enthusiasm for continuing her career in audit. She will now work full-time as a trainee, beginning professional qualifications with the Institute of Internal Audit.
63. As a result, the Team Administrator role has fallen vacant. Previously we could not join in the Council's apprentice scheme as none of the roles covered audit responsibilities; however we can shape our administrator role to meet the scheme. So we have offered our administrator role to a local young person who will join us as an apprentice later this month.

## Quality Assurance and Improvement

64. We continue to develop our Quality and Improvement Plan including, for 2016/17 a revision and refresh to our audit manual. See appendix A for an extract, summarising our audit approach. Our manual and approach is now on a par, or even ahead of, leading practice in the public sector. Leading on from this CIPFA invited the Head of Audit Partnership to prepare and present national training to around 50 other local authority audit services on Insights into Internal Audit Professional Standards.
65. We have also kept ahead of changes to Audit Standards through the role the Head of Audit Partnership has as Local Government Representative on the Internal Audit Standards Advisory Board (IASAB). The IASAB is the body that recommends changes applicable across the UK public sector. The forthcoming changes to Standards include those consulted by the Global Institute for Internal Audit in autumn 2016. Although the revisions will not apply in the public sector until 1 April 2017 (subject to consultation and agreement with devolved governments) we already show conformance. This includes with Standards 1320 and 2060 which the IIA has adapted to extend and clarify matters for reporting to Members.

*Standard 1320: Reporting on the Quality Assurance and Improvement Plan*

<b>Reporting Requirement</b>	<b>Comments</b>
Scope and frequency of internal and external assessments	We gained an external quality assessment considering conformance across the Public Sector Internal Audit Standards in April 2015. We will seek another before April 2020. We undertake a full internal assessment against the Standards each year.
Conclusions of assessors	The IIA decided we fully conform with standards. Our self-assessments since conclude we have upheld conformance.
Corrective action plans	Not applicable.
Qualifications and independence of assessors	The IIA team all held suitable professional qualifications and experience. They were also fully independent of the audit service and the authorities.

*Standard 2060: Reporting To The Board*

<b>Reporting Requirement</b>	<b>Comments</b>
The Audit Charter	Reported in March 2016. We will consider the need for a revision as part of our 2017/18 planning in March 2017.
Independence of internal audit	We can confirm the continued utility of independence safeguards described in the Charter. The internal audit service works independently and reports free from any inappropriate pressure or influence from management.
Audit Plan and Progress	Reported earlier in this document.
Resource requirements	Reported in our 2016/17 plan in March 2016. We continue to receive strong support from the authorities who provide sufficient resources to complete plans agreed by Members.
Results of audit	Reported earlier in this document.
Conformance with the Standards	As above, we work in full conformance with the Standards.
Risks accepted by management that may be unacceptable to the Council	We are aware of no risks currently accepted by management that we feel would be unacceptable to Members. See the section in this report on Risk Management for information on the significant risks recognised by management and proposed and active mitigations.

## Performance

66. Aside from progress against our audit plan we report on several specific performance measures designed to oversee the quality of audit service we deliver to partner authorities. The Audit Partnership Board (with Mark Green, Director of Finance and Business Improvement representing Maidstone) considers these measures at each quarterly meeting. Our performance also features in reports presented to the MKS Board (which includes the Council’s Chief Executive and Leader).
67. The table below shows our most recent outturn on these performance measures. Note that data is for performance across the partnership rather than council specific (but there are no significant variations from authority to authority).

Measure	2015/16 Outturn	2016/17 Target	Q2 16/17 Outturn
Cost per audit day	On target	n/a	5% ahead of target
% projects completed within budgeted days	60%	75%	75%
% of chargeable days	63%	70%	74%
Full PSIAS conformance	56/56	56/56	56/56
Audit projects completed within deadlines	76%	80%	88%
% draft reports within ten days of fieldwork end	68%	80%	81%
Satisfaction with assurance (score /4)	3.2	3.4	3.7
Final reports presented within 5 days of closing	92%	90%	93%
Satisfaction with auditor conduct (score /4)	3.5	3.75	3.86
Recommendations implemented as agreed	98%	95%	89%
Exam success	100%	75%	75%
Satisfaction with auditor skill (score /4)	3.2	3.4	3.7

68. We continue on a positive trend for performance across the measures, meeting all but one target in Quarter 2. Notably, this continues the strong upward performance in completing projects to budget (from 18% in 2013/14, rising to 47% in 2014/15 and now at 75%) and to agreed deadlines (up from 41% in 2014/15 to 88% now). We have achieved this result while keeping costs below target per audit day, enhancing audit quality and improving satisfaction scores measured through our post-audit surveys.
69. As always, we could not have achieved this performance without the dedicated expert support of the entire audit team, and the management of Mid Kent Audit offer profound thanks for their skill and hard work. We also thank the Members and Officers who continue to inform, support and guide our work.

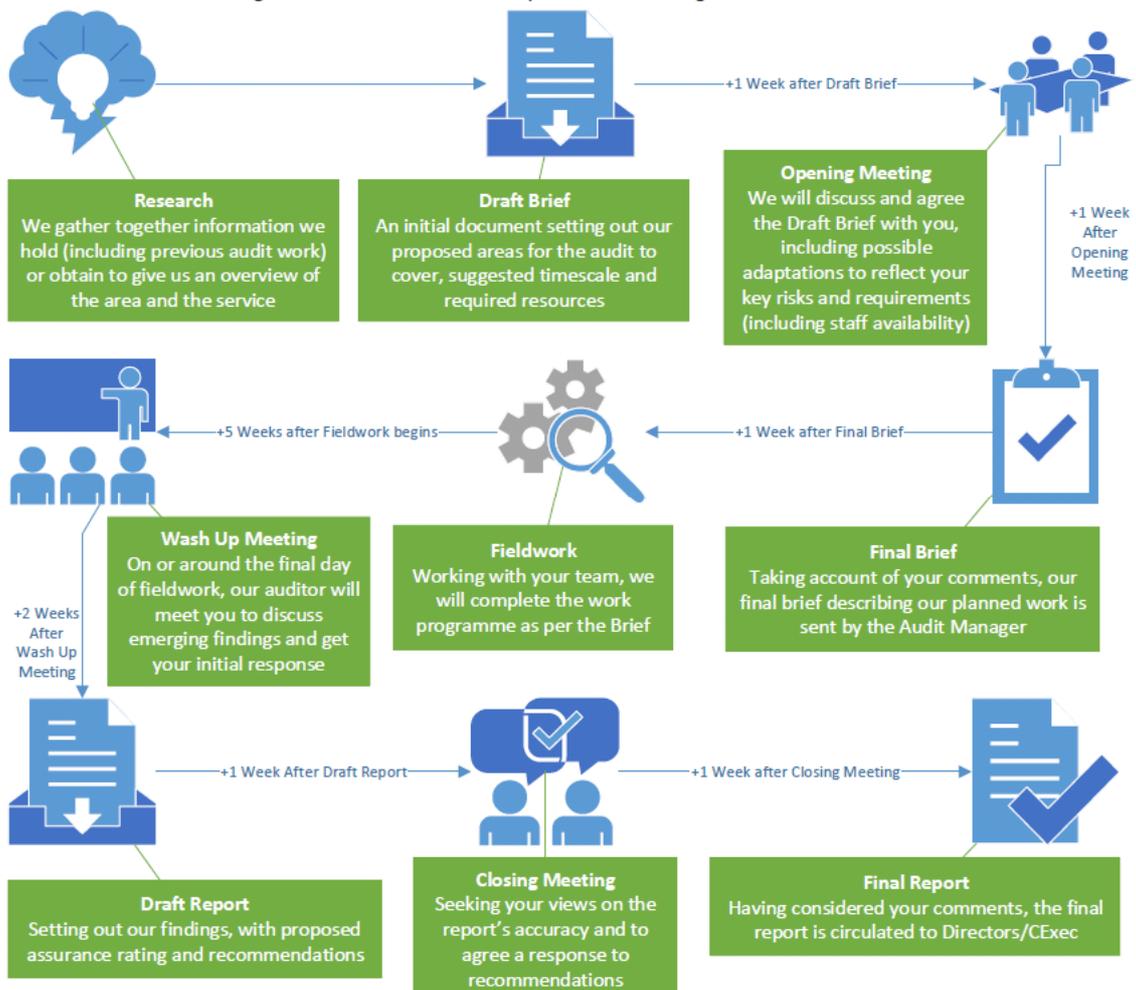
# Mid Kent Audit

MKIP: April 2016

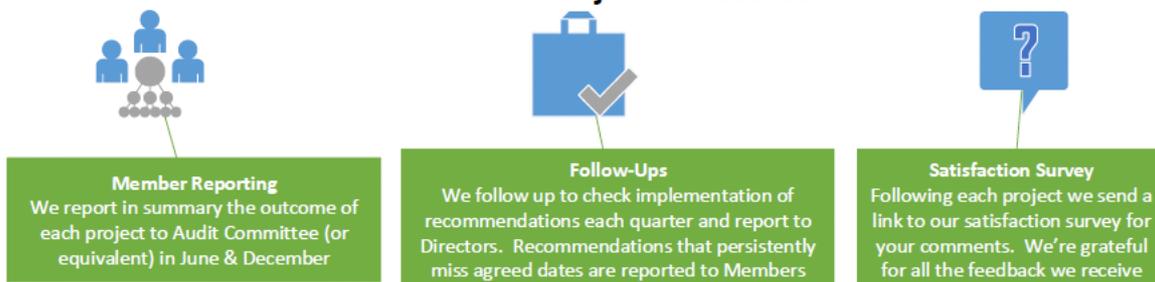
## Audit Project Process Map

There is no single set audit process or timeline; in reality we can and do adapt to circumstances as suits the service and its objectives. However, we hope it is helpful to set out a 'typical' approach to give you an idea of the key stages and possible timings, especially if you want to link in discussion of findings to your service management meetings. This 'typical' approach runs from brief to final report in 12 weeks.

We will discuss and agree a detailed timeline with you when finalising the audit brief.



## Post Audit Project Processes



## AUDIT GOVERNANCE & STANDARDS COMMITTEE

**21<sup>st</sup> November  
2016**

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

**Yes**

### Treasury Management Half Yearly Review 2016/17

<b>Final Decision-Maker</b>	Audit Governance & Standards Committee
<b>Lead Head of Service</b>	Director of Finance & Business Improvement
<b>Lead Officer and Report Author</b>	John Owen, Finance Manager (Systems)
<b>Classification</b>	Public
<b>Wards affected</b>	All

**This report makes the following recommendations to this Committee:**

1. Notes the position of the Treasury Management Strategy as at 30<sup>th</sup> September 2016.
2. No amendments to the current procedures are necessary as a result of the review of activities in 2016/17.

**This report relates to the following corporate priorities:**

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

An effective Treasury Management Strategy supports the achievement of all our corporate priorities.

**Timetable**

<b>Meeting</b>	<b>Date</b>
Audit Governance & Standards Committee	21st November 2016

# Treasury Management Half Yearly Review 2016/17

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Council has adopted CIPFA's Treasury Management Code of Practice which recommends that, as a minimum, a half and full yearly review on the Treasury Management function is 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 financial year 2016/17 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 the 2016/17 Strategy are:

### 2.2.1 Investment Strategy

- Maximum of £8m limit to be used for longer term investments (over 1 year) in highly secured instruments/institutions if it was deemed worthwhile to the Authority.
- Unsecured investments to be invested up to a maximum of 13 months dependent on credit worthiness and/or 'bail in' risks for the authority.

### 2.2.2 Borrowing Strategy

- An Authorised Limit for External Debt had been agreed by Members of up to £20.464m which is the indicator to show the maximum level of borrowing to fund the Council's Capital Programme, the Serco Paisa Loan and for day to day operations. Operational Debt had been set at £16.464m being the limit which external debt will not normally exceed.

### 2.3 An Economic Overview of 2016/17

2.3.1 The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. Forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the

crystallisation of the risks and the subsequent political turmoil prompted further turbulence in household, business and investor sentiment.

- 2.3.2 The repercussions of this on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.
- 2.3.3 In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. After six years of fiscal consolidation, the Autumn Statement on 23rd November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or similar measures cannot be ruled out.
- 2.3.4 Whilst the economic growth consequences of Brexit remain speculative, there is a widespread view that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. Although Q3 GDP figures were better than expected, these effects are likely to dampen economic growth for the rest of 2016 and in 2017.
- 2.3.5 Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly Inflation Report from the Bank of England forecasts a rise in CPI to 0.9% by the end of 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.
- 2.3.6 The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.
- 2.3.7 Market reaction: Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23rd June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69% at the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to 0.07% and 0.08% respectively. The

fall in gilt yields was reflected in the fall in PWLB borrowing rates, as shown in the table below.

Date	Bank of England Base Rate	PWLB Borrowing Rates – Fixed Rate, Maturity Loans (Standard Rate)					
		4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
	%	%	%	%	%	%	%
<b>01/4/2016</b>	0.50	1.50	1.86	2.54	2.99	3.25	3.34
<b>30/4/2016</b>	0.50	1.59	1.99	2.68	3.11	3.34	3.42
<b>31/5/2016</b>	0.50	1.58	1.97	2.58	2.99	3.23	3.30
<b>30/6/2016</b>	0.50	1.24	1.51	2.11	2.55	2.79	2.86
<b>31/7/2016</b>	0.50	1.13	1.34	1.87	2.31	2.58	2.67
<b>31/8/2016</b>	0.25	1.12	1.25	1.67	2.02	2.23	2.31
<b>30/9/2016</b>	0.25	1.05	1.22	1.72	2.13	2.36	2.44

## 2.4 Maidstone Borough Council Overview

2.4.1 The Council has used highly rated institutions to invest its funds and have kept all new investments during the first 6 months of 2016/17 short term (less than one year). £11.25m are held within the Council's Money Market Funds which are AAA rated funds and can be called upon instantly for meeting the Council's liabilities and to fund its capital programme. Total investments as at 30<sup>th</sup> September 2016 were £25.25m. A list of these can be found within **Appendix I**.

2.4.2 The average rate on Council investments is 0.77%. However, with rates falling lower, this average will reduce over the year. Investments are benchmarked against the 3 month LIBOR rate plus 20 basis points. 3 month LIBOR is 0.3828% as at 30<sup>th</sup> September 2016, plus the 20 basis points making the benchmark 0.5828%. The Council is currently operating at 32 basis points above this rate currently but this is unlikely to be sustainable.

2.4.3 Investment Income for the year to date as at 30<sup>th</sup> September 2016 totalled £106k.

2.4.4 At 31<sup>st</sup> March 2016 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was (£1.2m) negative, showing that the capital programme was affordable without recourse to borrowing. However, the Council had a forecasted CFR of £10m due to the expanded capital programme in 2016/17. As at 30<sup>th</sup> September 2016 there has been no need for the Council to borrow, due to slippage of capital expenditure into 2017/18. Furthermore, it does not appear that borrowing will be necessary to fund capital expenditure during the current year.

## 2.5 Annual Investment Strategy

2.5.1 The Treasury Management (TM) Strategy was approved for 2016/17 by Council in March 2016. The Council's Annual Investment Strategy is incorporated in the TM Strategy and outlines the Council's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

2.5.2 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 creditworthiness list, information provided by the Council's investment advisors, Arlingclose, along with sharing information with other local authorities and being mindful of market intelligence.

## 2.6 Prudential and Treasury Indicators

2.6.1 It is a statutory duty for the Council to determine and keep under review "Affordable Borrowing Limits". During the financial year 2016/17, 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**.

## 2.7 Cash Management

2.7.1 The major element of the Council's Treasury Management function is the management on a daily basis of the cash requirements of the Council. The policy objectives 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 2016/17.
- 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 2016/17.

---

### **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 2016/17 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**

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	This report monitors investment and borrowing activity set by Council for the financial year which is linked to the strategic plan and corporate priorities.	Director of Finance & Business Improvement
<b>Risk Management</b>	Risk management is included within the Treasury Management Practices to which the Council adheres. These risks comprise of: <ul style="list-style-type: none"><li>• credit and counterparty risk,</li></ul>	Director of Finance & Business Improvement

	<ul style="list-style-type: none"> <li>• liquidity risk,</li> <li>• interest rate risk and</li> <li>• exchange rate risk, refinancing risk (however, the Council only deals in its home currency sterling).</li> <li>• Legal &amp; regulatory risk</li> <li>• Fraud, error and corruption</li> <li>• Market risk management</li> </ul>	
<b>Financial</b>	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.	Director of Finance & Business Improvement
<b>Staffing</b>	None	
<b>Legal</b>	The report is in compliance with statutory and legal regulations, e.g. CIPFA Code of Practice on Treasury management in local authorities.	Interim Head of Mid Kent Legal Partnership
<b>Equality Impact Needs Assessment</b>	None	
<b>Environmental/Sustainable Development</b>	None	
<b>Community Safety</b>	None	
<b>Human Rights Act</b>	None	
<b>Procurement</b>	None	
<b>Asset Management</b>	None	

**8. REPORT APPENDICES**

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

- Appendix I: Treasury Management Half Yearly Review – Investment Listing as at 30<sup>th</sup> September 2016
- Appendix II: Treasury Management Half Yearly Review – Prudential and Treasury Indicators

**9. BACKGROUND PAPERS**

Arlingclose Template Report located within Corporate Finance.

## **Maidstone Borough Council Investments as at 30th September 2016**

Counterparty	Type of Investment	Principal	Start Date	Maturity Date	Rate of Return	Arlingclose Credit Limits	
						Suggested Term	Maximum Deposit
STANDARD LIFE	MONEY MARKET FUND	£8,000,000			0.369%	2 years	£8,000,000
FEDERATED INVESTORS (UK)	MONEY MARKET FUND	£3,250,000			0.320%	2 years	£8,000,000
NATIONWIDE BUILDING SOCIETY	DEPOSIT - FIXED	£2,000,000	01/04/2016	03/10/2016	0.710%	6 months	£3,000,000
NATIONAL COUNTIES B SOCIETY	DEPOSIT - FIXED	£1,000,000	01/04/2016	03/10/2016	0.800%	100 Days	£1,000,000
LLOYDS BANK PLC	DEPOSIT - FIXED	£2,000,000	14/10/2015	12/10/2016	1.050%	13 Months	£3,000,000
UNITED OVERSEAS BANK LTD	DEPOSIT - FIXED	£2,000,000	28/01/2016	28/10/2016	0.750%	13 Months	£3,000,000
GOLDMAN SACHS INTERNATIONAL	DEPOSIT - FIXED	£2,000,000	28/07/2016	04/11/2016	0.500%	100 Days	£3,000,000
HINCKLEY & RUGBY B S	DEPOSIT - FIXED	£1,000,000	15/07/2016	16/01/2017	0.500%	100 Days	£1,000,000
LLOYDS BANK PLC	DEPOSIT - FIXED	£1,000,000	01/09/2016	31/08/2017	1.000%	13 Months	£3,000,000
ROYAL BANK OF SCOTLAND PLC/T	DEPOSIT - FIXED	£2,000,000	11/03/2016	11/03/2017	1.440%	35 Days	£3,000,000
STANDARD CHARTERED BANK	CERTIFICATE OF DEPOS	£1,000,000	23/10/2015	21/10/2016	0.970%	Suspended from lending list. Current advice: investment does not need to be recalled	

£ 25,250,000

## **PRUDENTIAL INDICATORS**

### **Ratio of Financing Costs to Net Revenue Stream**

2015/16 Actual %	2016/17 Estimate %	2016/17 Actual %
-1.3	-1.1	-1.4
2015/16 Actual £,000	2016/17 Estimate £,000	2016/17 Actual £,000
-252.00	-210.00	-106.00

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure. A negative figure shows investment income is higher than borrowing costs. This indicator is shown as a percentage and as a monetary value of the net revenue budget

### **Incremental Impact of Capital Investment Decisions on the Council Tax**

	2015/16 Actual £,000	2016/17 Estimate £,000	2016/17 Actual £,000
i) Forecast of total budgetary requirement assuming no changes to capital programme	10,192	20,830	20,830
ii) Forecast of total budgetary requirement after changes to capital programme	4,536	15,200	4,410
iii) Additional Council Tax Required in £.p.	-3.58	-0.73	-2.14

Demonstrates the affordability of the capital programme. It also demonstrates the impact of the capital programme upon the Council Tax. Impact on Council Tax has reduced in 2016/17 due to slippage in Capital Programme

### **Capital Expenditure**

2015/16 Actual £,000	2016/17 Estimate £,000	2016/17 Actual to Date £,000
4,536	15,200	4,410

Actual capital expenditure as at 30th September 2016.

### **Capital Financing Requirement**

2015/16 Actual £,000	2016/17 Estimate £,000	2016/17 Actual £,000
-1,255	4,390	-6,400

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

## **Treasury Indicators**

### **Actual External Debt**

	2015/16 Actual £,000	2016/17 Estimate £,000	2016/17 Actual £,000
Actual Borrowing	0	11,950	0
Other Long Term Liabilities	4,971	4,514	4,514
Total	5,426	16,464	4,514

External borrowing as at 30th September 2016

### **Authorised Limit for External Debt**

	2015/16 Actual £,000	2016/17 Estimate £,000	2016/17 Actual £,000
Borrowing	1,500	15,950	0
Other Long Term Liabilities	4,971	4,514	4,514
Total	6,471	20,464	4,514

This is the main limit which is set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003.

### **Operational Limit for External Debt**

	2015/16 Actual £,000	2016/17 Estimate £,000	2016/17 Actual £,000
Borrowing	1,500	11,950	0
Other Long Term Liabilities	4,971	4,514	4,514
Total	6,471	16,464	4,514

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. This limit acts as a warning but can be breached temporarily.

### **Upper Limit for Fixed Interest Rate Exposure**

	2015/16 Actual £,000	2016/17 Estimate £,000	2016/17 Actual £,000
	-29,000	-33,050	-22,000

This is the maximum amount of net borrowing and investment that can be at a fixed rate.

### **Upper Limit for Variable Interest Rate Exposure**

	2015/16 Actual £,000	2016/17 Estimate £,000	2016/17 Actual £,000
	-20,150	-40,000	-21,243

This is the maximum amount of net borrowing and investment that can be at a variable rate.

### **Principal Invested for more than 364 Days**

	2015/16 Actual £,000	2016/17 Estimate £,000	2016/17 Actual £,000
	0	8,000	0

This indicator shows the Council have not breached the limit agreed by Council within its Treasury Management Strategy 2016/17

## Audit, Governance and Standards Committee

**21 November 2016**

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

**Yes**

### External Auditor's Annual Audit Letter

<b>Final Decision-Maker</b>	Audit, Governance and Standards Committee
<b>Lead Head of Service</b>	Mark Green, Director of Finance and Business Improvement
<b>Lead Officer and Report Author</b>	Ellie Dunnet, Chief Accountant
<b>Classification</b>	Public
<b>Wards affected</b>	None

**This report makes the following recommendations to this Committee:**

1. That the committee considers the external auditor's annual audit letter for the year ending 31 March 2016 at Appendix I to this report.

**This report relates to the following corporate priorities:**

The council is committed to delivering on its priorities and securing value for money through effective governance. This letter is one measure of how effective the council has been in delivering against this commitment.

**Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	7 November 2016

# External Auditor's Annual Audit Letter

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Annual Audit Letter summarises the main findings from the work undertaken by the external auditor for the year ended 31 March 2016. Representatives from Grant Thornton will in attendance at the meeting to present the letter and respond to any questions which committee members may have.
  - 1.2 It is recommended that this document is considered by the committee in accordance with the terms of reference detailed within the council's Constitution.
- 

## 2. INTRODUCTION AND BACKGROUND

- 2.1 The committee has previously considered the External Auditor's Audit Findings report for the year ending 31 March 2016. The Annual Audit Letter at Appendix I summarises the key findings arising from the audit and effectively concludes this process.
  - 2.2 With regard to the 2015/16 audit:
    - The external auditor gave an unqualified opinion on the Council's accounts on 22 September 2016, in advance of the 30 September 2016 national deadline; and
    - The external auditor is 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 2016.
- 

## 3. AVAILABLE OPTIONS

- 3.1 The committee could choose not to acknowledge the comments made by the external auditor. This option is not recommended since the report offers an independent view of how the authority is operating.
- 

## 4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 It is recommended that the committee note and comment on the External Auditor's Annual Audit Letter included at Appendix I to this report and consider whether any recommendations should be made to other committees. As stated previously, the Annual Audit Letter provides stakeholders with an independent assessment of how the council is performing in a range of areas including value for money.

## 5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 This committee previously considered the External Auditor's Audit Findings report for the year ending 31 March 2016 as part of the formal adoption of the annual financial statements for the 2015/16 financial year.

---

## 6. CROSS-CUTTING ISSUES AND IMPLICATIONS

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	The council is committed to delivering on its priorities and securing value for money through effective governance. This letter is one measure of how effective the council has been in delivering against this commitment.	Section 151 Officer
<b>Risk Management</b>	Risk Management forms a key part of the corporate governance arrangements which are assessed as part of the annual audit and are commented on in this letter.	Section 151 Officer
<b>Financial</b>	The financial implications arising from the work of external audit are detailed within Appendix I.	Section 151 Officer
<b>Staffing</b>	None identified	
<b>Legal</b>	None identified	
<b>Equality Impact Needs Assessment</b>	None identified	
<b>Environmental/Sustainable Development</b>	None identified	
<b>Community Safety</b>	None identified	
<b>Human Rights Act</b>	None identified	
<b>Procurement</b>	None identified	
<b>Asset Management</b>	None identified	

## 7. REPORT APPENDICES

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

- Appendix I: Annual Audit Letter for the year ending 31 March 2016

## **8. BACKGROUND PAPERS**

None



# The Annual Audit Letter for Maidstone Borough Council

---

**Year ended 31 March 2016**

28 October 2016

**Darren Wells**

Engagement Lead

T 01293 554 120

E [darren.j.wells@uk.gt.com](mailto:darren.j.wells@uk.gt.com)

**Matt Dean**

Engagement Manager

T 020 7728 3181

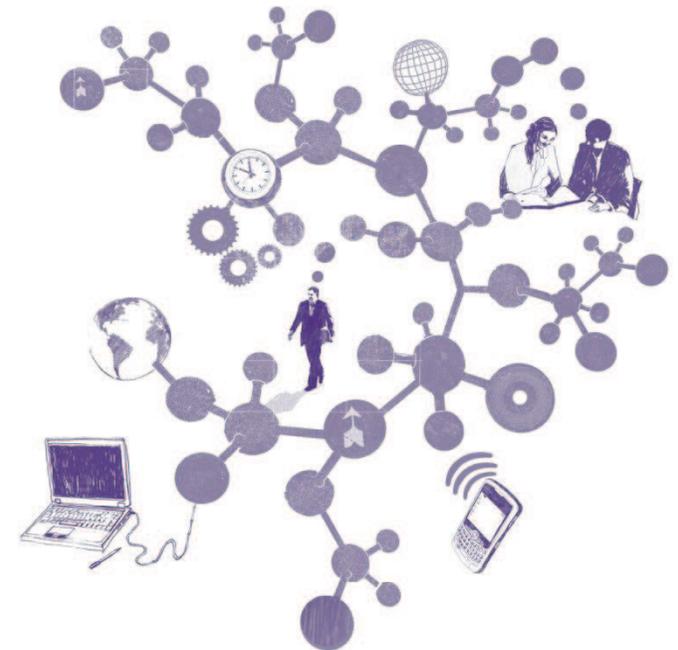
E [matthew.dean@uk.gt.com](mailto:matthew.dean@uk.gt.com)

**Pratheesh Kulendran**

Executive

T 07792 549 288

E [pratheesh.kulendran@uk.gt.com](mailto:pratheesh.kulendran@uk.gt.com)



---

# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	3
2. Audit of the accounts	4
3. Value for Money conclusion	7
4. Working with the Council	9

## **Appendices**

A Reports issued and fees

---

# Executive summary

## Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Maidstone Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit, Governance and Standards Committee as those charged with governance in our Audit Findings Report on 19 September 2016

## Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## Our work

### Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 22 September 2016.

### Value for money conclusion

We concluded that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 22 September 2016

### Certificate

We certified the completion of the audit of the accounts of Maidstone Borough Council in accordance with the requirements of the Code on 22 September 2016.

### Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit, Governance and Standards Committee in our Annual Certification Letter.

## Working with the Council/Authority

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

**Grant Thornton UK LLP**  
October 2016

---

# Audit of the accounts

## Our audit approach

### Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,794,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of materiality (£500k) for one specific area, cash, due to its sensitive nature.

We set a lower threshold of £89,700, above which we reported errors to the Audit, Governance and Standards Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>Employee remuneration accruals understated</b> There is a risk that the Council's employee remuneration expenses included within the Accounts could be understated due to costs being omitted from the Accounts via incorrect processing during the year.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Identified and performed a walkthrough of the controls on the payroll system;</li> <li>• Reconciled employee remuneration expenses per the payroll system to the general ledger;</li> <li>• Performed substantive testing of employee expenses;</li> <li>• Performed trend analysis of movements in total employee costs and follow up testing on unexpected movements.</li> </ul> <p>No significant issues were identified from the audit work performed on this area.</p>
<p><b>Creditors understated or not recorded in the correct period</b> There is a risk that the Council's expenditure and/or creditors balance could be understated by expenditure being either omitted completely from the accounts or included within the incorrect year.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Identified and performed a walkthrough of the controls on the operating expenses system;</li> <li>• Performed substantive testing of expenditure covering the whole of 2015-16;</li> <li>• We also tested creditor payments, including accruals, for completeness, classification and occurrence;</li> <li>• We reviewed the control account reconciliations;</li> <li>• Performed cut-off testing;</li> <li>• Reviewed the allocation and apportionment of central expenses.</li> </ul> <p>No significant issues were identified from the audit work performed on this area.</p>
<p><b>Valuation of pension fund net liability</b> The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 80% of its total liabilities.  The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and were sufficient to mitigate the risk of material misstatement;</li> <li>• We reviewed the competence, expertise and objectivity of the actuary who carried out the pension fund valuation. We gained an understanding of the basis on which the valuation is carried out;</li> <li>• Completed procedures to confirm the reasonableness of the actuarial assumptions made;</li> <li>• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> <li>• We have also tested the data provided to the actuary.</li> </ul> <p>No significant issues were identified from the audit work performed on this area</p>

---

# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 22 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Audit, Governance and Standards Committee on 19 September 2016. We identified a number of minor disclosure issues which the Council agreed to amend in the final version of the Accounts, but there were no formal recommendations raised in respect of any of these issues.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

No items have been identified which have required us to use these statutory duties during the course of 2015-16.

---

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings Report agreed with the Council in September 2016, we agreed the outcome of our work and confirmed that no recommendations had been raised from the work performed.

## Overall VfM conclusion

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 2016.

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Financial Position</b>            Whilst you are on course to meet your financial outturn for 2015-16, the longer term picture looks more challenging due to the Council's Revenue Support Grant Funding ending sooner than originally planned. As a result the Council needs to identify a considerable level of savings over the next five years as part of its Medium Term Financial Plan to reduce the level of reserves needed to achieve financial balance.</p> <p>62</p>	<p>We performed the following work in this area:</p> <ul style="list-style-type: none"> <li>• reviewed relevant Council and other committee papers;</li> <li>• reviewed the 2015-16 financial outturn against plan, and investigated any significant areas of over/underperformance and the reasons behind these.</li> <li>• reviewed the progress against the 2016-17 financial plan up to the completion of our audit; and</li> <li>• obtained an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years, including discussions with Management on progress to date</li> </ul>	<p>The key points from our work in this area are the following:</p> <ul style="list-style-type: none"> <li>• The Council delivered a £91k underspend against its General Fund Budget in 2015-16, despite having to set aside a balance of £1,770k to cover the deficit on the Collection Fund. The latter arose due to the level of appeals received during the year which had to be mitigated in a provision.</li> <li>• The Council set a balanced budget for 2016-17, which required identifying a total of £2,178k of savings from a range of areas across the Council. Of this total, £679k comes from additional income generation, and a further £559k will be realised via service reconfiguration, which shows a combined plan of both increasing income and reducing costs to deliver these savings. There remains a degree of risk associated with the £2,178k, but this has been clearly highlighted to members as part of the decision making process of setting the budget, and is being mitigated by the regular financial monitoring which takes place during the course of the financial year.</li> <li>• The Council has set an updated Medium Term Financial Plan, covering the period from 2017-18 to 2021-22. Members were presented with three scenarios with slightly different planning assumptions which produced a range of potential savings requirement over the medium term of £3,355k to £5,108k. The updated MTFP assumes £4,178k of savings over this five-year period, which will be a considerable challenge for the Council, despite its track record in recent years.</li> <li>• From our review we consider that the agreed MTFP is based on reasonable assumptions around the likely cost pressures and additional income sources to be incurred/identified during this period. The Council has begun work on the challenge of identifying the required savings, discussing with Members the potential areas, options and the associated savings which may be possible over the longer term to help fill the gap. Officers acknowledge this is work in progress and more is needed to finalise the options, quantify the saving opportunity and risk assess the likelihood of delivery.</li> <li>• Linked to both its short and long term plans, the Council is continuing to advance its Commercialisation agenda. The Council has set a target of delivering £1m of additional income over the Medium Term, of which it reports £460k has been delivered to date. The Council has set clear overarching principles to govern this area, which are being consistently applied by Members during their decision making processes to ensure these projects deliver the best possible outcomes for the Council and the wider economy.</li> </ul> <p>From our work it is clear that the Council has established appropriate governance arrangements to enable it to manage the financial challenge it faces.</p>

---

# Working with the Council

## **Our work with you in 2015/16**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness..

Sharing our insight – we provided regular Audit, Governance and Standards Committee updates covering best practice. Areas we covered included our local government health checks and governance review, 'Reforging Local Government', along with our review of Audit Committee effectiveness, 'Knowing the Ropes', along with a range of other Reports. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Supporting development – we provided a workshop to members of the Audit, Governance and Standards Committee on the Value for Money Conclusion, including details of our approach and gave members the chance to identify the potential risks they thought might impact our Conclusion.

Support outside of the audit – our advisory team supported you with the delivery of a Risk and Opportunity Development Workshop, which allowed members and management to undertake a review of the Council's Risk Register and help shape the future of this Register going forward.

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	50,475	50,475	67,300
Housing Benefit Grant Certification	13,910	TBC	13,910
<b>Total fees (excluding VAT)</b>	<b>64,385</b>	<b>TBC</b>	<b>81,210</b>

## Fees for other services

Service	Fees £
Risk and Opportunity Development Workshop	5,462

Any potential fee variations for the work on the Housing Benefit Grant Certification are subject to approval by Public Sector Audit Appointments Ltd, and we will report this back to the Audit, Governance and Standards Committee once any additional fees have been agreed.

## Reports issued

Report	Date issued
Audit Plan	21 March 2016
Audit Findings Report	19 September 2016
Annual Audit Letter	28 October 2016



© 2016 Grant Thornton UK LLP. All rights served.

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

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

[grant-thornton.co.uk](http://grant-thornton.co.uk)

# Agenda Item 13

## Audit, Governance & Standards

21 November  
2016

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

Yes

### External Audit Update November 2016

<b>Final Decision-Maker</b>	Audit, Governance & Standards Committee
<b>Lead Director or Head of Service</b>	Mark Green, Director of Finance & Business Improvement
<b>Lead Officer and Report Author</b>	Ellie Dunnet, Chief Accountant
<b>Classification</b>	Non-exempt
<b>Wards affected</b>	None

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

1. That the committee notes the external auditor's update report attached at Appendix I.

#### **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 primarily focused on setting out the external auditor's plans for issuing an opinion on the 2016-17 financial statements and concluding on value for money by the statutory deadline of 30 September 2017.

#### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	21 November 2016

# External Audit Update November 2016

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The committee are invited to consider the report of the external auditor which sets out plans for the 2016-17 audit and offers a summary of emerging national issues and developments of relevance to the local government sector.
  - 1.2 Representatives from Grant Thornton will be in attendance at the meeting to present their report and respond to questions.
- 

## 2. INTRODUCTION AND BACKGROUND

- 2.1 External audit services are provided by Grant Thornton who successfully tendered for the five year contract from 2012-13 following the abolition of the Audit Commission's audit practice.
  - 2.2 This report sets out plans for the 2016-17 audit and informs committee members of a number of relevant emerging issues and developments.
- 

## 3. AVAILABLE OPTIONS

- 3.1 The committee could choose not to consider this report, however this option is not recommended as to do so could have an adverse impact on the Audit, Governance and Standards Committee's ability to discharge its responsibilities in relation to external audit and governance.
- 

## 4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Given the respective responsibilities of both the external auditor and this committee, an update report of this nature is judged to be appropriate for consideration by committee members.
- 

## 5. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	The report is primarily focused on setting out the external auditor's plans for issuing an opinion on the 2016-17 financial statements and concluding on value for money by the statutory deadline of 30 September 2017.	Section 151 Officer & Finance Team
<b>Risk Management</b>	This report supports the committee in the delivery of its governance responsibilities.	Section 151 Officer &

	It also helps to mitigate the risk of non-compliance with the statutory timetable for the production and audit of the annual accounts through timely communication of any potential issues.	Finance Team
<b>Financial</b>	Not applicable	
<b>Staffing</b>	Not applicable	
<b>Legal</b>	Not applicable	
<b>Equality Impact Needs Assessment</b>	Not applicable	
<b>Environmental/Sustainable Development</b>	Not applicable	
<b>Community Safety</b>	Not applicable	
<b>Human Rights Act</b>	Not applicable	
<b>Procurement</b>	Not applicable	
<b>Asset Management</b>	Not applicable	

**6. REPORT APPENDICES**

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

- Appendix I: External Audit Update November 2016

**7. BACKGROUND PAPERS**

None

# Audit, Governance and Standards Committee Maidstone Borough Council

## *Progress Report and Update Year ended 31 March 2016*

69 November 2016

**Darren Wells**

Engagement Lead

T 01293 554 120

E [darren.j.wells@uk.gt.com](mailto:darren.j.wells@uk.gt.com)

**Matt Dean**

Engagement Manager

T 020 7728 3181

E [matthew.dean@uk.gt.com](mailto:matthew.dean@uk.gt.com)

**Pratheesh Kulendran**

Executive

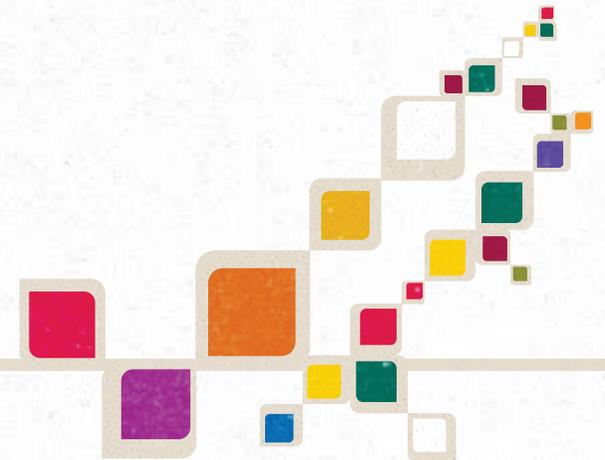
T 07792 549 288

E [pratheesh.kulendran@uk.gt.com](mailto:pratheesh.kulendran@uk.gt.com)



70

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.



# Introduction

This paper provides the Audit, Governance and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

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

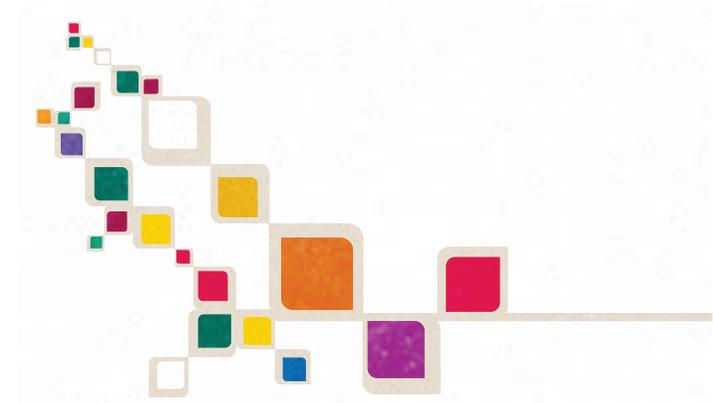
- Innovation in public financial management (December 2015); [www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/](http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/)
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); [www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/](http://www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/)
- Making devolution work: A practical guide for local leaders (October 2015) [www.grantthornton.co.uk/en/insights/making-devolution-work/](http://www.grantthornton.co.uk/en/insights/making-devolution-work/)
- Reforging local government: Summary findings of financial health checks and governance reviews (December 2015) <http://www.grantthornton.co.uk/en/insights/reforging-local-government/>

## Members and officers may also be interested in our recent webinars:

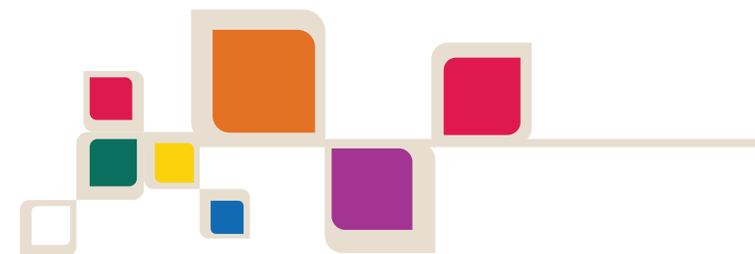
**Alternative delivery models:** Interview with Helen Randall of Trowers and Hamlins, discussing Local Authority Trading Companies (LATC) and Joint Ventures (JV) in local government. <http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/>

**Cyber security in the public sector:** Our short video outlines questions for public sector organisations to ask in defending against cyber crime <http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



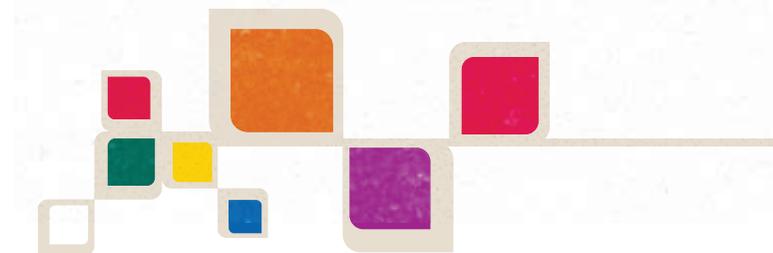
# Progress at November 2016



72

2016/17 work	Planned Date	Complete?	Comments
<p><b>Fee Letter</b> We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	April 2016	Yes	The 2016-17 fee letter was issued during April 2016 and confirmed a fee of £50,475 for the 2016-17 Accounts Audit.
<p><b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.</p>	March 2017	Not yet due	This will be presented to the Audit, Governance and Standards Committee in March 2017, and will summarise the findings from our interim visit mentioned below.
<p><b>Interim accounts audit</b> Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• updated understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• Value for Money initial risk assessment.</li> </ul>	January 2017	Not yet due	We will look to build on the interim visit performed in 2015-16 to focus our work on those areas which have changed from the prior year.
<p><b>Final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2016-17 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion</li> <li>• review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17</li> </ul>	July 2017	Not yet due	<p>We are planning to complete our audit by the end of July as part of the continued transition to the earlier closedown and audit cycle that is required from 2018.</p> <p>To help the Council prepare appropriate evidence to support the financial statements, we will provide a schedule of working papers that we require and will discuss the implications of emerging accounting matters with finance staff in advance of year end.</p> <p>We will report the findings from our work within our Audit Findings Report which will be presented to the Audit, Governance and Standards Committee in September 2017</p>

# Progress at November 2016



73

2016/17 work	Planned Date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>Guidance issued by the National Audit Office confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul> <p>Following our initial assessment against these three criteria we will then determine whether there are any Significant Risks present which require further detailed work to be performed. The NAO define a Significant Risk as follows: 'A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public' Significance has both qualitative and quantitative aspects.</p>	<p>January to July 2017</p>	<p>Not yet due</p>	<p>We will undertake our initial Risk Assessment alongside our interim visit so we are able to report any Significant Risks in our Audit Plan, which is mentioned on the previous page.</p>
<p><b>Other areas of work</b></p> <p>Meetings with Officers and others</p>	<p>On-going</p>	<p>In Progress</p>	<p>We will maintain our regular schedule of meetings with key Officers, such as meetings with the Chief Executive and the Director of Finance and Business Improvement to ensure we are up to speed with the key changes impacting on the Council.</p>

# Grant Thornton Sector Issues

74



# Financial sustainability of local authorities: capital expenditure and resourcing

National Audit Office

75 According to the NAO, Local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.

Since 2010-11, local authorities have faced less pressure on their resources to support capital expenditure as compared to revenue. Although local authorities' revenue spending power fell by over 25 per cent in real terms from 2010-11 to 2015-16, the NAO estimates that capital grants to authorities marginally increased from 2010-11 to 2014-15, (excluding education).

Capital spending by authorities increased by more than five per cent in real terms overall between 2010-11 and 2014-15, but this is uneven across local authorities and service areas. Almost half of authorities reduced their capital spending. Most service areas saw an increase in capital spend with the exception of culture and leisure: capital spending fell by 22 per cent overall in this area.

The NAO's report, published on 15 June, found that authorities face a growing challenge to continue long-term investment in their existing assets. Total spending has remained stable, but increasingly capital activities are focused on 'invest to save' and growth schemes that cover their costs or have potential to deliver a revenue return. Many areas of authorities' asset management programmes do not meet these criteria and are now seen as a lower priority.

The report also notes that local authorities' debt servicing costs have grown as a proportion of revenue spending as revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 10 per cent or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

According to the NAO, DCLG has rightly focused on revenue issues in the 2015 Spending Review but in future reviews will need to focus more on capital. The Department is confident from its engagement with authorities that revenue pressures are their main concern, however the NAO's analysis demonstrates that capital costs exert significant and growing pressure on revenue resources.

The full report is available at:

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

# The changing face of Corporate Reporting

The International Integrated Reporting Council (IIRC) have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the corporate reporting challenges our clients face.

76

We were fortunate to have the CEO of the IIRC speak at our most recent meeting. Integrated Reporting, <IR>, is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector, <IR> has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets..

<IR> is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

By moving the focus away from only short-term, backward looking, financial reporting, <IR> encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

- <IR> encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.
- <IR> is underpinned by the International <IR> Framework published in December 2013. It is principles- based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.
- <IR> is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt <IR>, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this.

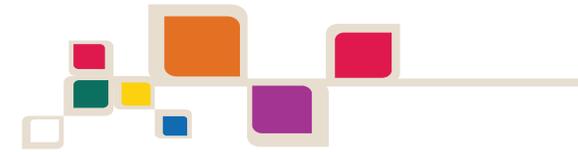
<Integrated Reporting>

Further information is available on the IIRC's website

# Grant Thornton Technical update

77





## Accounting and audit issues

### Flexible use of capital receipts

DCLG has issued a [Direction and Statutory Guidance](#) on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

78

Grant Thornton  
Publications and  
events

79



# Advancing closure: the benefits to local authorities

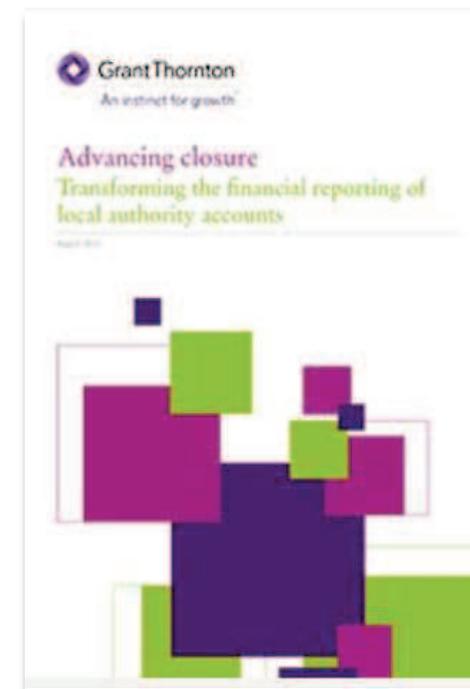
With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
  - high quality financial statements as a result of improved quality assurance arrangements;
  - greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;
  - improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
  - allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.
- While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further details:
- Enabling sustainable change requires committed leadership underpinned by a culture for success
  - Efficient and effective systems and processes are essential
  - Auditors and other external parties need to be on board and kept informed throughout

Grant Thornton reports



<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

# Under the skin: Stories that explore the culture of place

Our towns, counties and cities have their own compelling and richly varied cultures. There are shared and sometimes contested values, local traditions, behaviours and drivers for change. Culture evokes memory and identity. It affects how we feel about where we live and work and what's possible. It can be a set of stories describing how we do things around here, bringing out the best in us – like our history and heritage – but also preventing us from moving forward.

With local authorities increasingly adopting a place-shaping role we're exploring how culture impacts on the sector's ability to facilitate and support a vibrant economy.

We have hosted two round tables with local authority CEOs, leaders and others, to consider how local authority leadership needs to change if it is to take local culture into account.

Although the term culture of place is heavily subjective our initial conversations suggest there are some common themes occurring.

- The place leader is the story teller – leaders need to be more deliberate in their storytelling, helping communities make sense of a complex world, the past, present and possible futures
- Being clear about what they want to see – there is a strong need to create an environment that gives people permission to care, to be innovative, to take action themselves, to adapt and experiment
- Socio-economic situations often drive the culture – the uniqueness of socio-economic factors leads to a recognition that one place will never be like another – and, in fact, should not aspire to be so - instead tailoring their approach to the areas specific strengths.
- It's all about context – areas within Britain can be local, national and international all at the same time, learning to live with, and get the best advantage from, what's on our doorstep is key.

More information on this area can be found via the link attached:

Grant Thornton reports

Grant Thornton  
An instinct for growth

VIBRANT  
ECONOMY

*Under the skin:  
Stories that explore  
the culture of place*

<http://www.grantthornton.co.uk/en/insights/culture-of-place/>

# Website Relaunch

We have recently launched our new-look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below – <http://www.grantthornton.co.uk/industries/public-sector/>





© 2016 Grant Thornton UK LLP. All rights reserved.

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

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

[grantthornton.co.uk](http://grantthornton.co.uk)

GRT102468