

# AGENDA

## AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING



Date: Monday 20 March 2017

Time: 6.30 p.m.

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

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Page No.

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

**Continued Over/:**

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**Issued on Friday 10 March 2017**

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 16 January 2017  | 1 - 7   |
| 8.  | Report of the Head of Audit Partnership - Internal Audit & Assurance Plan 2017/18                                 | 8 - 39  |
| 9.  | Report of the Director of Finance and Business Improvement - External Audit Progress Report March 2017            | 40 - 58 |
| 10. | Report of the Director of Finance and Business Improvement - External Auditor's Audit Plan                        | 59 - 82 |
| 11. | Report of the Director of Finance and Business Improvement - Budget Strategy Risk Assessment Update               | 83 - 96 |
| 12. | Committee Work Programme 2016/17  | 97 - 99 |

## **MAIDSTONE BOROUGH COUNCIL**

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

#### **MINUTES OF THE MEETING HELD ON 16 JANUARY 2017**

**Present: Councillor McLoughlin (Chairman) and Councillors Adkinson, Boughton, Coulling (Parish Representative), Daley, English, Harvey, Perry and Revell**

49. **APOLOGIES FOR ABSENCE**

It was noted that apologies for absence had been received from Councillors Fissenden, Garland, Mrs Riden (Parish Representative) and Vizzard.

50. **NOTIFICATION OF SUBSTITUTE MEMBERS**

The following Substitute Members were noted:

Councillor Boughton for Councillor Garland  
Councillor Harvey for Councillor Vizzard

51. **URGENT ITEMS**

The Chairman said that he had agreed to take the revised report of the Director of Finance and Business Improvement relating to the Treasury Management Strategy 2017/18 as an urgent item as the relevant figures for the Capital Programme and prudential borrowing had been updated as appropriate to align with the Capital Programme proposals that were being reported to the Policy and Resources Committee on 18 January 2017.

The Chairman said that he had also agreed to take a revised letter from Grant Thornton, the External Auditor, relating to Housing Benefits Subsidy Claim certification work undertaken for the Council for the year ended 31 March 2016 as an urgent item because the letter circulated with the agenda was not the final version.

52. **NOTIFICATION OF VISITING MEMBERS**

There were no Visiting Members.

53. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

54. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

55. EXEMPT ITEMS

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

56. MINUTES OF THE MEETING HELD ON 21 NOVEMBER 2016

**RESOLVED:** That the Minutes of the meeting held on 21 November 2016 be approved as a correct record and signed.

57. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 21 NOVEMBER 2016

Minute 44 – Interim Internal Audit and Assurance Report

In response to questions, the Head of Audit Partnership confirmed that the information relating to Section 106 agreements and audit work undertaken in respect of contract management, which had been sent to the Chairman and Vice-Chairman earlier that day, would be circulated to all Members of the Committee and to the Parish Council representatives.

58. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

The Committee considered the report of the Interim Head of Legal Partnership on complaints received under the Members' Code of Conduct during the period 1 September 2016 to 31 December 2016. It was noted that:

- Since the last report to the Committee on 19 September 2016, there had been three new complaints. Of the three complaints received, two related to Borough Councillors and one related to a Parish Councillor.
- As at 5 January 2017, one complaint was at the initial assessment stage, one had not been progressed as it failed the legal jurisdiction test and one was not progressed as it failed the local assessment criteria.
- At the time of the last report to the Committee, two complaints were awaiting initial assessment. Of these, one had been concluded with a finding that there was no breach of the Code of Conduct and one was not progressed as it failed the local assessment criteria.

In response to questions, the Interim Deputy Head of Legal Partnership explained that the complaint at the initial assessment stage related to a Parish Councillor. Details of all complaints received under the Members' Code of Conduct were reported to the Audit, Governance and Standards Committee.

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

## 59. HOUSING BENEFIT GRANT CLAIM

The Committee considered the report of the Interim Head of Revenues and Benefits summarising the outcome of the work undertaken by Grant Thornton, the External Auditor, to certify the Housing Benefits Subsidy Claim submitted by the Council for the financial year 2015/16.

It was noted that:

- The claim related to expenditure of £47.3m.
- An issue was identified in the prior year around the classification of Non-HRA Overpayments which resulted in the Council performing additional work and making an amendment to the final 2014/15 Claim Form. The Council had implemented new procedures and had also undertaken a review ahead of the submission of the 2015/16 Claim Form and made amendments where required. Grant Thornton had reviewed this work and agreed with the Council's findings, which enabled them to certify the Claim Form without the need for any amendments or a Qualification Letter.

Members recognised that the certification of the Claim Form without the need for any amendments or a Qualification Letter was a significant achievement.

**RESOLVED:** That the assurance provided by Grant Thornton that the Council maintains a strong control environment for the preparation and monitoring of grant claims and returns be noted, and that the Officers be congratulated on the outcome of the certification work.

## 60. BUDGET STRATEGY - RISK ASSESSMENT

The Committee considered the report of the Director of Finance and Business Improvement setting out the risk analysis produced by the Finance Service for the Budget Strategy 2017/18 onwards. It was noted that:

- A Medium Term Financial Strategy and Efficiency Plan had been approved by the Council in September 2016. The Officers had subsequently developed detailed budget proposals for 2017/18 and the remaining four years of the Medium Term Financial Strategy. To manage the overall risk of non-delivery of savings a blended approach had been adopted incorporating efficiency savings, income generation, transformation and business improvement and service reductions. Service reductions had been included within the budget proposals, but remained a last resort.
- Cumulative savings of £3.2m had been identified compared with a budget gap over the same period of £4m. However, the savings, if adopted, would allow a balanced budget to be set in 2017/18 since the budget gap of £1.5m was covered by proposed savings of £1.5m. Further work would be required to identify means of closing the budget

gap over the five year period of the Medium Term Financial Strategy as a whole.

- The budget risks were described in the form of a risk register and it should be recognised that risks were not usually discrete. There were inter-relationships between the risks such that, for example, inaccurate inflation projections could impact the overall risk of failing to deliver a balanced budget.
- The biggest risks were those associated with the delivery of planned savings/increased income.
- The process of risk identification provided the opportunity to take steps to mitigate the risks.

During the ensuing discussion, reference was made to the following issues:

- The risk register was well researched and balanced, but some of the risks which had been identified such as changes in government economic strategy were out of the Council's control, and the impact was difficult to assess.
- The section of the risk register relating to funding the Capital Programme should be amended to include the Community Infrastructure Levy as a source of funding.
- The commercialisation agenda should focus on costs as well as income.
- The risk matrix and register should be updated and reported to each meeting of the Committee taking into account the changing economic environment.

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

- Provision had been made in the strategic revenue projections to mitigate the impact of changes in government economic strategy post 2019/20.
- The risks identified were residual risks having taken a high level overview of the Medium Term Financial Strategy. Detailed consideration had been given to individual budget items. Taking a different approach to the Medium Term Financial Strategy could increase the level of risk.
- The commercialisation agenda was now focused on housing and regeneration having regard to lessons learned and appropriate mitigation.
- Information could be provided in future reports to quantify risks.

- There was a risk that other members of the Business Rates Pool might require support from the Council as membership of the pool precluded access to the central government safety net. The risks associated with other members of the pool being reliant on a particular business for income from business rates would be examined.

**RESOLVED:** That subject to the points raised in the discussion, the risk assessment of the budget strategy provided at Appendix A to the report of the Director of Finance and Business Improvement be noted, but the risk matrix and register should be updated and reported to each meeting of the Committee for consideration due to the changing economic environment etc.

#### 61. TREASURY MANAGEMENT STRATEGY 2017/18

In accordance with CIPFA's Code of Practice on Treasury Management, the Committee considered the revised report of the Director of Finance and Business Improvement setting out the draft Treasury Management Strategy for 2017/18, including the Treasury Management and Prudential Indicators.

The Finance Manager explained that:

- The Strategy was based upon a revised Capital Programme for 2017/18 to 2020/21 which would be discussed by the Policy and Resources Committee on 18 January 2017, and might be subject to amendments. In line with advice received from Arlingclose, the Council's Treasury Management advisers, the Council would continue to run down balances to fund the Capital Programme until such time that prudential borrowing was needed. The Council currently had sufficient reserves to fund the Capital Programme during 2017/18, but borrowing might be required during 2018/19 if the Programme ran to plan.
- The maximum principal sums to be invested for a period exceeding 364 days had been reduced from £8m to £5m. This was consistent with the borrowing strategy to utilise cash balances rather than loan debt to finance the Capital Programme in the short term due to low investment returns and high counterparty risk in the current economic climate.
- The Council would endeavour to further diversify its portfolio, as far as it was operationally feasible, ensuring that a combination of secured and unsecured investments was considered.
- The expected level of investment income had been revised downwards in light of the current economic outlook and interest rate forecasts. This was reflected in the revenue budget proposals being reported to Service Committees.
- Upon the advice of the Council's Treasury Management advisers, the table for Maturity Structure of Borrowing set out in the Treasury Management Strategy Statement would be amended to reflect the availability of cheaper borrowing in the shorter term.

In response to questions, the Officers confirmed that:

- In an earlier presentation, the Council's Treasury Management advisers had introduced a potentially different approach to treasury management and raised the issue of the risks associated with lending to banks on an unsecured basis. It was envisaged that there was sufficient flexibility within the Treasury Management Strategy to work with Arlingclose on their recommendations.
- The ratio of financing costs to net revenue stream showed the proportion of the net revenue stream (revenue budget) that was attributable to the financing costs of capital expenditure. Negative figures indicated more investment interest than prudential borrowing interest (2016/17 – 2018/19). Positive figures indicated the opposite (2019/20 – 2020/21).
- In terms of the ratio of financing costs to the net revenue stream, 2.6% of £18.9m (£491k) in 2020/21 was a relatively low figure. This sum would be used to fund prudential borrowing to pay for projects that would generate a return for the Council.
- If the Council was to borrow to fund the Capital Programme, the affordability of the Programme would need to include an assessment of the cost of borrowing compared with the return on investments and appropriate provision would need to be built in to the Medium Term Financial Strategy to cover the cost.
- Having regard to financing costs and counterparty risks etc., the Council would only borrow as and when required.
- Other funding streams proposed in the development of the future Capital Programme included the New Homes Bonus grant.

Having considered the responses to its questions, the Committee:

**RESOLVED to RECOMMEND to the COUNCIL:** That subject to (a) any potential amendments arising from the Policy and Resources Committee's consideration of the Capital Programme and (b) the amendment of the table for Maturity Structure of Borrowing, the Treasury Management Strategy for 2017/18, including the Treasury Management and Prudential Indicators, attached as Appendices A and C to the report of the Director of Finance and Business Improvement, be adopted.

62. COMMITTEE WORK PROGRAMME 2016/17

The Committee considered its work programme for the remainder of the Municipal Year 2016/17.

**RESOLVED:**

1. That the Audit, Governance and Standards Committee work programme for the remainder of the Municipal Year 2016/17 be noted.
2. That when circulating the information relating to Section 106 agreements referred to in Minute 57 above, the Head of Audit Partnership be requested to endeavour to include details of Section 106 contributions returned to developers unused.
3. That when reporting back on audit work in respect of contract management as part of the Internal Audit and Assurance Plan 2017/18, the Head of Audit Partnership be requested to make specific reference to routine monitoring and reviews.

63. DURATION OF MEETING

6.30 p.m. to 8.00 p.m.

# Agenda Item 8

## Audit, Governance & Standards Committee

20 March 2017

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

Yes

### Internal Audit & Assurance Plan 2017/18

|                                       |   |
|---------------------------------------|---|
| <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> | Alison Blake, Audit Manager             |
| <b>Classification</b>                 | Public                                  |
| <b>Wards affected</b>                 | All                                     |

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

1. That the Committee **APPROVES** the Audit & Assurance Plan for 2017/18.
2. The Committee **NOTES** the longer term issues recorded by Mid Kent Audit.
3. The Committee **ENDORSES** the view of the Head of Audit Partnership that the plan sets out sufficient resource to complete a work programme leading to a Head of Audit Opinion on the Councils' internal controls, risk management and governance.
4. The Committee **NOTES** the Head of Audit Partnership's assurance that the plan is compiled independently and without inappropriate influence from management.

#### 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 supports the good governance of Maidstone Borough Council and so contributes broadly to achievement of its corporate priorities.

#### Timetable

| <b>Meeting</b>                            | <b>Date</b>   |
|---|---------------|
| Committee (Audit, Governance & Standards) | 20 March 2017 |

# Internal Audit Plan 2017-18

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Public Sector Internal Audit Standards (the "Standards") require an audit service to produce and publish a risk based plan, at least annually, for approval by Members. The plan must consider input from senior management and Members.
- 1.2 In Mid Kent Audit, planning is a continuous activity but we began the programme working towards the 2017/18 plan in October 2016. The paper here sets out the plan and project list intended for 2017/18 for Member approval.

## 2. INTRODUCTION AND BACKGROUND

- 2.1 The Standards set out the requirements that a Head of Audit must meet in setting out the plan. We extract relevant sections from the Standards in the appendix to this report.
- 2.2 Furthermore, the Standards explicitly direct that Head of Audit must keep the plan flexible and responsive to emerging and changing risks across the year.

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## 3. AVAILABLE OPTIONS

- 3.1 The Standards mandate compiling a risk based plan for management comments and Member approval. Although by convention that plan is presented annually around the start of the financial year, the Standards do not specifically require that action. The Council could, potentially, move to a shorter planning cycle which would allow more flexibility for responding to risk. There are other examples of authorities that take a similar approach.
- 3.2 PSIAS does not mandate any specific work for the plan, so its content is at the discretion of the internal audit provider (subject to the comments of management and approval of Members) and have an enormous range of possibilities with respect to the areas that could be examined. The attached appendix represents the currently proposed responses to the risks assessed at the Council.

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

- 4.1 A move to a shorter planning cycle would strike against a practice considered to work well, and one which allows a degree of certainty to resource requirements that helps ensure stability in a service spread across four authorities.
  - 4.2 The Committee is required to consider and endorse the audit plan, and maintain oversight of the internal audit service and its activities. The risk of not endorsing the plan is that the Council will be at greater risk of incurring or failing to detect fraud, error or service failure or weakness.
- 

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

- 5.1 We circulated an initial draft to Heads of Service and Directors across the four authorities (and including Heads of Shared Services) in January ahead of individual meetings to discuss proposed projects in their areas. We also met the Chairman of this Committee to discuss proposed areas of audit examination. The attached represents an adaptation of the original draft reflecting comments received in those meetings.
- 5.2 The overall resource allocation was included in a paper to Shared Service Board in early January and received no comment.

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

- 6.1 If the plan is endorsed as outlined, the next step will be for us to write to each Head of Service to communicate the audit projects in their service areas for the year.
  - 6.2 We will continue to consider and, where necessary, reflect in the plan responses to changes in the Councils' risks and priorities. Progress against the plan will be reported to Members midway through the year.
-

## 7. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue   | Implications   | Sign-off                                  |
|---|--|---|
| <b>Impact on Corporate Priorities</b>         | The report supports the good governance, internal control and risk management of Maidstone Borough Council and so contributes broadly to achievement of its corporate priorities.  | Rich Clarke,<br>Head of Audit Partnership |
| <b>Risk Management</b>                        | The audit plan is produced as a result of risk assessment examining where audit activity is best focussed. The risk of not approving the plan is that the Council will be at greater risk of incurring or failing to detect fraud, error or service failure or weakness. |   |
| <b>Financial</b>                              | There are no additional costs or savings associated with this proposal.  |   |
| <b>Staffing</b>                               | There are no staffing implications associated with this proposal.  |   |
| <b>Legal</b>                                  | Internal Audit is a required function in accordance with the Accounts & Audit Regulations 2015.  |   |
| <b>Equality Impact Needs Assessment</b>       | This report does not describe circumstances which require an Equality Impact Needs Assessment.   |   |
| <b>Environmental/ Sustainable Development</b> | There are no environmental or sustainable development implications for this report.  |   |
| <b>Community Safety</b>                       | There are no community safety implications for this report.  |   |
| <b>Human Rights Act</b>                       | There are no implications for the Council's responsibilities under the Human Rights Act in this report.  |   |
| <b>Procurement</b>                            | There are no procurement implications for this report.   |   |
| <b>Asset Management</b>                       | There are no asset management implications for this report.  |   |

## **8. REPORT APPENDICES**

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

- Appendix I: Internal Audit & Assurance Plan 2017-18
- 

## **9. BACKGROUND PAPERS**

Extracts from the Public Sector Internal Audit Standards and the KPMG Audit Committee Handbook are included in appendix I. It also draws on information from 2016/17 Audit Plans published across the local government sector. Further background papers, including detailed resource calculations, risk assessments and notes from consultation meetings with officers and Members, can be made available on request.

## **APPENDIX I**

# **INTERNAL AUDIT AND ASSURANCE PLAN 2017/18**

# **Internal Audit & Assurance Plan 2017/18**



## **Maidstone Borough Council**



# MID KENT AUDIT

## Introduction

1. Internal audit is an independent and objective assurance and consulting service designed to add value and improve the Council's work. It helps the Council achieve its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.
2. Statutory authority for internal audit lies within the Accounts and Audit Regulations 2015, specifically Regulation 5:

### Internal audit

5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

3. For Maidstone Borough Council, its internal auditors are Mid Kent Audit; a four-way partnership including Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. The total service spend of the four authorities (£76m in 2016/17) makes us the fourth largest provider of audit services to English District Councils.
4. Since becoming a four-way partnership in April 2010, we have refreshed our collaboration agreement which now runs until March 2019. The agreement fixes our day-to-day supervision to a Shared Services Board including the Council's Director of Finance & Business Improvement. Also in 2015 we were the first local authority audit service assessed by the IIA as being in full conformance with the Public Sector Internal Audit Standards (the "Standards").
5. The Standards set out demands on the Head of Audit Partnership on compiling a plan of work to deliver that effective internal audit service to evaluate the Council's risk management, control and governance. The Standards<sup>1</sup> include:

### 2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

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<sup>1</sup> As described in the Audit Charter, at the Council "Chief Audit Executive" in the Standards is the Head of Audit Partnership. "Board" is the Audit, Governance & Standards Committee. "Senior Management" is the Council's Corporate Leadership Team.

# MID KENT AUDIT

## *Interpretation:*

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.

### **Public sector requirement**

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

### **2010.A1**

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

### **2010.A2**

The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

# MID KENT AUDIT

## **2010.C1**

The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.

## **2020 Communication and Approval**

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

## **2030 Resource Management**

The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

### *Interpretation:*

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

### **Public sector requirement**

The risk-based plan must explain how internal audit's resource requirements have been assessed.

Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.

6. This document sets out that plan in fulfilment of the Standards' demands and to explain to the Committee our assessment of risk and response for 2017/18.
7. However, as the Standards make plain, our risk assessment and evaluation of the Council's priorities does not end with approval of this document. We will continue to reflect and consider our responses as the Council's risks and priorities may change across the year. We will report a specific update to Members midway through the year. We may also consult with the Committee (or its Chairman) on any other significant changes should the need arise.
8. We must also clarify that our audit plan cannot address all risks across the Council and represents our best use of inevitably limited resources. In approving the plan, the Committee recognises this limit. We will keep the Committee abreast of any changes in our assessment of need as we oversee the risks posed to the Council. In particular we will undertake a full evaluation of need during each annual planning round.

# MID KENT AUDIT

## Available Resources and Evaluation

9. Based on anticipated personnel and productivity within the audit team for 2017/18 we expect to have **1,820** days available for completing audit plans across the four authorities. This is an increase of 110 days (7%) on 2016/17 and reflects a settled team in 2017/18, a continued increase in productivity as trainees gain experience and the over-performance of management time against forecasts for 2016/17.
10. As agreed by Shared Service Board in late 2014, the total days are allocated between the partners in line with their financial contribution to the Partnership's costs (which are set out in our collaboration agreement). Note that projects examining shared services are split between authorities.

| Category   | 2016/17            | 2017/18            |
|--|--------------------|--------------------|
| Total contracted days available<br>(i.e. total working days less leave entitlements)                                     | 2,435<br>(11.2fte) | 2,521<br>(11.6fte) |
| Forecast chargeability<br>(i.e. %age of time spent on plan work rather than<br>admin, training, personnel management &c) | 70.2%              | 72.2%              |
| Audit days available<br>(i.e. total days available x chargeability)  | 1,710              | 1,820              |
| Ashford Borough Council (23%)  | 395                | 420                |
| <b>Maidstone Borough Council (29%)</b>   | <b>500</b>         | <b>530</b>         |
| Swale Borough Council (26%)  | 440                | 470                |
| Tunbridge Wells Borough Council (22%)  | 375                | 400                |

11. Therefore the total Mid Kent Audit service share to Maidstone BC in 2017/18 is **530 days** an increase of 30 days from the 2016/17 level. Guidance within the Standards sets out various factors Heads of Audit must consider when evaluating whether the resources available – in quantity and ability – are enough to fulfil responsibilities.
12. We present that analysis on the following page:

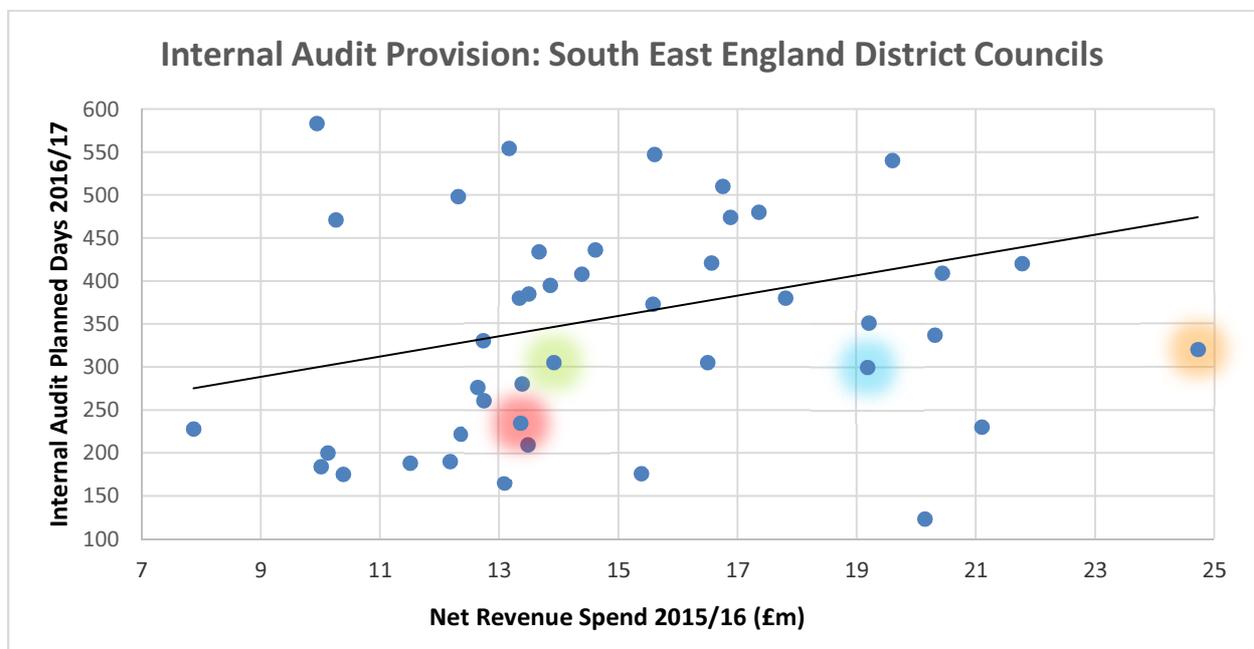
# MID KENT AUDIT

| <b>Audit Resource Evaluation 2017/18</b> |  |  |  |
|--|--|--|--|
| <b>Step</b>                              | <b>Question to consider</b>  | <b>Response</b>  | <b>Resource Indication</b>                   |
| 1  | Did you have sufficient resource to complete your prior year plan?         | Yes, anticipated fulfilment of 500 audit days (371 days, or 74% complete at end of January), including flexibility to address new areas of risk arising in year.   | No change                                    |
| <b>Changes to the Organisation</b>       |  |  |  |
| 2  | How has the size of the organisation changed?                              | No significant change  | No change                                    |
| 3  | How has the complexity of the organisation changed?                        | Additional subsidiary company created in 2016/17 adds to business complexity but no immediate impact for extent of required internal audit coverage.   | No change                                    |
| 4  | How has the risk appetite of the organisation changed?                     | While not formally documented as yet, our risk work over the course of the year indicate the Council is increasingly willing to take on (or support) more ambitious projects to realise its goals.   | Marginal increase in audit resource required |
| 5  | How has the risk profile of the organisation changed?                      | Continuing external threats such as challenging funding environment and diversifying responsibilities suggest a greater risk profile.  | Marginal increase in audit resource required |
| 6  | How has the organisation's control environment changed?                    | No significant new changes to control environment and continued good outcomes to financial audits. However, note some 'weak' reports on broader assurance work.  | Marginal increase in audit resource required |
| <b>Changes to the Audit Service</b>      |  |  |  |
| 7  | What was the outcome of the QAIP/EQA?                                      | Full conformance   | No change                                    |
| 8  | What changes have there been to audit professional standards and guidance? | Some minor changes on the role of CAE in broader assurance opens up possibilities, but currently accommodated within existing audit resource.  | No change                                    |
| 9  | What efficiencies have there been within the audit service?                | Embedding of new audit manual during 2016/17 and continued growth in experience leading to efficiencies. Also note we have largely cleared backlog work and so will be in a position to begin 2017/18 plan relatively early in comparison to previous years. | Less audit resource required.                |

13. There is no definitive guidance on the level or quality of audit needed to deliver a robust internal audit opinion. KPMG's Audit Committee Institute Handbook – a guide aimed at Committees of FTSE250 companies – cites an average for companies with revenue of less than £400m of audit costs being 0.37% of revenue cost.

# MID KENT AUDIT

14. Considered across the Partnership, the equivalent figure at Mid Kent Audit is around 0.52% based on total net service spend<sup>2</sup> across the councils of £76m. However, a local authority offers a breadth of services compared with a listed company. We must also consider the special governance needs on public money and that – even taken together – the four authorities are at the smaller end of that scale. Therefore, we’re satisfied the benchmark suggests a reasonable audit provision.
15. Another benchmark is to examine the levels of audit provision at similar authorities. The chart below plots net revenue spend against number of audit days (excluding ancillary roles) on the plan for each non-metropolitan district council in South-East England. We highlight the four Mid Kent authorities (Maidstone in orange).



Sources: Revenue from CLG returns, audit days from published IA plans

16. While there is not a strong correlation between size and audit days (prior year audit days is the single strongest predictor), there is a general trend towards larger authorities having greater audit provision. By that marker all four Mid Kent Authorities lie below the trendline but there are a (smaller) number of authorities who provide an audit opinion for fewer days.
17. In conclusion, we feel on current assessment the Audit Partnership has enough resources in both quantity and ability to deliver the audit plan and a robust overall audit opinion.

<sup>2</sup> We’ve used net service spend rather than gross to remove large bulk costs such as Housing Benefits which are (largely but not entirely) reimbursed by Government and have separate certification arrangements.

# MID KENT AUDIT

## Other Assurance Work

18. Beyond direct assurance projects, we have various responsibilities and work in supporting the Council's governance. These include roles in counter fraud, risk, training (for officers and Members) and other consultancy work. We consider how much of the available time we are likely to need for those tasks by anticipating known work scheduled for 2017/18 and considering results for the year.

| Other Assurance Work                         | 2016/17 Plan Days | 2016/17 Outturn (to Jan-17) | 2017/18 Plan Days |
|--|-------------------|-----------------------------|-------------------|
| Risk   | 40                | 26                          | 40                |
| Counter Fraud                                | 40                | 35                          | 50                |
| Member Support                               | 16                | 15                          | 20                |
| Follow-Up                                    | 40                | 26                          | 40                |
| Audit Planning                               | 10                | 11                          | 10                |
| Contingency                                  | 50                | 137                         | 50                |
| <b>Total Other Assurance Work Days</b>       | <b>196</b>        | <b>250</b>                  | <b>210</b>        |
| Days In Audit Plan                           | 500               | 500                         | 530               |
| <b>Days Remaining for Assurance Projects</b> | <b>304</b>        | <b>250</b>                  | <b>320</b>        |

19. We provide more details below in turn on each area of other assurance work.

### Risk

| Description of current role and specific tasks in 2016/17  | Anticipated role and specific tasks in 2017/18   |
|--|--|
| We have responsibility for running risk management for the Council. The Deputy Head of Audit coordinates and provides operational and strategic support to officers and Members. | <p>Further improvement of risk management and setting in processes including:</p> <ul style="list-style-type: none"> <li>• 6 monthly reporting to PRC</li> <li>• Quarterly reporting to CLT</li> <li>• Development of a risk appetite statement                             <ul style="list-style-type: none"> <li>• Refresh of the Corporate Level Risks</li> </ul> </li> <li>• Integration of risk management into decision making                             <ul style="list-style-type: none"> <li>• Delivering training, guidance</li> <li>• Project management risk improvements</li> </ul> </li> </ul> |
| <b>Resource evaluation requirement for 2017/18</b>   | Retain 40 days in audit and assurance plan   |

# MID KENT AUDIT

## Counter Fraud

| Description of current role and specific tasks in 2016/17   | Anticipated role and specific tasks in 2017/18   |
|---|--|
| <p>We have an active role in coordinating the Council's response to the National Fraud Initiative, including advice on data upload, overseeing matches and reporting to management and the Cabinet Office. We also have specific policy roles as a route for whistleblowers and money laundering reports.</p> <p>In 2016/17 we have also undertaken investigations into counter fraud matters raised with us by officers.</p> | <p>The NFI released more than 2,000 new matches in January 2017. Now the shared compliance team's focus is on revenues, around a third of these matches falls to audit to examine – an extension of our previous coordination and administration role.</p> <p>We will also in 2017/18 take a lead from the forthcoming CIPFA Counter Fraud Standards and undertake a major review and refresh across the breadth of counter fraud polices.</p> |
| <b>Resource evaluation requirement for 2017/18</b>  | Increase to 50 days in recognition of new NFI rollout and policy refresh exercise  |

## Member Support

| Description of current role and specific tasks in 2016/17   | Anticipated role and specific tasks in 2017/18   |
|---|--|
| <p>We attend each Committee and present to most, including taking part in Chairman's briefing and agenda setting meetings ahead of each Committee.</p> <p>We also provide Member training and briefings on areas of Committee interest, but are open to and attended by a broad cross section of Council Members.</p> | <p>We will continue and expand, where possible, the range of Member briefings in 2017/18. This may be relevant to help publicise any new or significant revisions to counter fraud policies.</p> |
| <b>Resource evaluation requirement for 2017/18</b>  | Increase to 20 days to reflect expanded Member briefing role evident in 16/17 outturn  |

## Follow-Up

| Description of current role and specific tasks in 2016/17                             | Anticipated role and specific tasks in 2017/18   |
|---|--|
| <p>During 2016/17 we have been tracking over 80 risk-rated audit recommendations.</p> | <p>We continue to enjoy a good response from officers on implementation and do not expect any significant change in the number and range of recommendations we make.</p> |
| <b>Resource evaluation requirement for 2017/18</b>                                    | Retain 40 days to offset reducing number of recommendations and increasing compliance against some significant findings to review  |

# MID KENT AUDIT

## Audit Planning

| Description of current role and specific tasks in 2016/17   | Anticipated role and specific tasks in 2017/18   |
|---|--|
| Extensive risk assessment, review and consultation involved in putting together the annual audit plan. Planning for individual audit projects is within the budget of each project. | As the second year in our planning cycle, the extent of risk assessment needed will reduce.    |
| <b>Resource evaluation requirement for 2017/18</b>  | Recognise as a separate task with 10 days in 2017/18, noting reduced scope of risk assessment. |

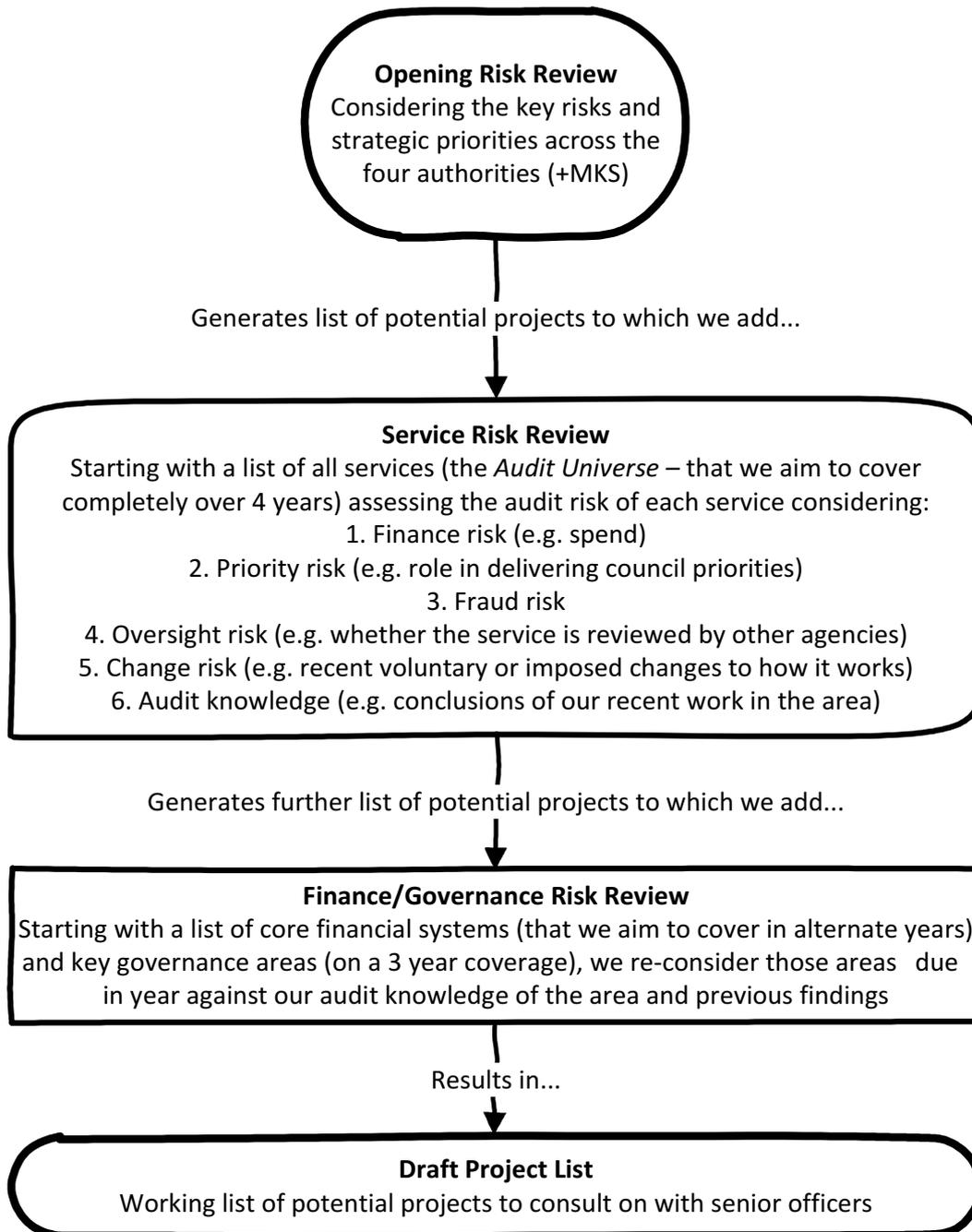
## Contingency

| Description of current role and specific tasks in 2016/17  | Anticipated role and specific tasks in 2017/18  |
|--|---|
| <p>Time reserved in the budget for extra tasks arising. In 2016/17 this has included, for example:</p> <ul style="list-style-type: none"> <li>- extending scope of audit reviews</li> <li>- advice on procurement compliance</li> <li>- consultation on project management</li> <li>- other general advice and guidance requests.</li> </ul> <p>This section also includes around 12 days of work for external clients, producing income in cash and kind for the Partnership of around £8k.</p> | <p>We have no specific projects identified in 2017/18 but we expect providing continuing support and advice to the Council's major projects such as Mote Park Visitor Centre Development. Should any tasks need the form of an audit project we will add them to the plan and advise the Committee.</p> |
| <b>Resource evaluation requirement for 2017/18</b>   | In line with good practice elsewhere we aim to achieve 10% contingency except where reduced by specific known and budgeted projects (as was the case in 2016/17). For 2017/18 we can restore contingency to a 10% level.  |

# MID KENT AUDIT

## Project Risk Assessment

14. The Standards demand we base our plan on a documented risk assessment, and consider views of senior management. We fulfil this through the process outlined:



15. We then undertook extensive consultation with Heads of Service and Senior Management across the Council. That consultation has produced the list of audit assurance projects detailed on the next page.

# MID KENT AUDIT

## 2017/18 Operational Audit Plan: Assurance Projects List

| Project Title & Indicative Scope  | Plan Days      |
|---|----------------|
| <b>Core Finance Reviews</b>   |                |
| <b>Accounts Receivable</b><br>- To examine system control design and operation  | 10             |
| <b>Business Rates</b><br>- To examine system control design and operation   | 8 <sup>3</sup> |
| <b>Council Tax</b><br>- To examine system control design and operation  | 8 <sup>3</sup> |
| <b>Payroll</b><br>- To examine system control, design and operation with precise scope to be confirmed but potentially examining payroll deductions                         | 6 <sup>3</sup> |
| <b>Procurement</b><br>- To review compliance with contract procedure rules, and operation of and compliance with contract register  | 15             |
| <b>Governance Reviews</b>   |                |
| <b>Complaints</b><br>- To review compliance with complaints procedures  | 12             |
| <b>Data Protection</b><br>- To establish compliance with the Data Protection Act 1998 and consider readiness for the General Data Protection Regulations in force from 2018 | 12             |
| <b>Emergency Planning</b><br>- To review emergency planning arrangements and adequacy of supporting guidance  | 15             |
| <b>Information Security</b><br>- To consider effectiveness of implementation of one (or more) new IT security policies due for issue in 2017/18                             | 7 <sup>3</sup> |
| <b>IT Disaster Recovery</b><br>- To consider effectiveness across the partnership of IT backup and recovery arrangements  | 6 <sup>3</sup> |
| <b>Operational Reviews</b>  |                |
| <b>Animal Welfare Control</b><br>- To examine controls for ensuring regulatory compliance   | 12             |
| <b>Building Control</b><br>- To examine controls around finance and administration of discretionary fees  | 15             |
| <b>Business Terrace</b><br>- To review operation of the terrace, including against original projections   | 15             |

<sup>3</sup> Shared service with other authority/ies. Maidstone BC contribution to audit budget only.

# MID KENT AUDIT

| Project Title & Indicative Scope  | Plan Days       |
|---|-----------------|
| <b>Cemetery</b><br>- To examine controls for ensuring regulatory compliance   | 12              |
| <b>Contract Management</b><br>- To consider against a checklist of good quality contract management an overview of how contracts are managed at the authority                                     | 15              |
| <b>Debt Recovery Service</b><br>- To review effectiveness of controls acting in new service   | 5 <sup>3</sup>  |
| <b>Food Safety</b><br>- To examine controls working to ensure legal compliance, including operation of establishment food hygiene ratings   | 5 <sup>3</sup>  |
| <b>Home Improvement Grants</b><br>- To examine administration and controls around distributing grants for home improvement (including disabled facilities grants)                                 | 12              |
| <b>Homelessness</b><br>- To assess progress against homelessness strategy   | 15              |
| <b>HR Policy Compliance</b><br>- To review effectiveness of HR policies in operation by line managers across the organisation   | 7 <sup>3</sup>  |
| <b>Insurance</b><br>- To review identification and management of insurance risks and claims handling  | 12              |
| <b>Land Charges</b><br>- To examine controls over collecting and distributing income in the shared service  | 5 <sup>3</sup>  |
| <b>Legal Services</b><br>- To examine controls in operation within the legal service to ensure Lexcel compliance, including quality of monitoring data  | 5 <sup>3</sup>  |
| <b>Member Training</b><br>- To review provision for Member training, especially new Member induction  | 12              |
| <b>Parking Income</b><br>- To examine controls on collecting pay & display and pay by phone income  | 10 <sup>3</sup> |
| <b>Promotion &amp; Marketing</b><br>- To review the Council's promotion and marketing operations  | 12              |
| <b>Street Scene Provision</b><br>- To examine effectiveness of provision  | 12              |
| <b>Subsidiary Company Governance</b><br>- To review controls for ensuring good governance in the Council's property company (from the Council's perspective – we are not auditors of the company) | 12              |
| <b>Workforce Planning</b><br>- To review progress against workforce planning strategy adopted in 2016   | 15              |

# MID KENT AUDIT

| Project Title & Indicative Scope   | Plan Days      |
|--|----------------|
| <b>Cross Authority Reviews<sup>4</sup></b>   |                |
| <b>Corporate Governance</b><br>- To consider one or more areas in the Corporate Governance Code  | 6 <sup>2</sup> |
| <b>Financial Planning</b><br>- To consider how each authority undertakes medium to long-term financial planning and review, learning from NAO work in the area   | 7 <sup>2</sup> |
| <b>Independent Review</b>  |                |
| <b>Risk Management</b><br>- To review effectiveness of risk management. Review from the Head of Audit of Medway Council in exchange for Mid Kent Audit delivering Introduction to Internal Audit Training to the Medway team | 0              |

## 2017/18 Audit & Assurance Plan: Overall Summary Maidstone BC

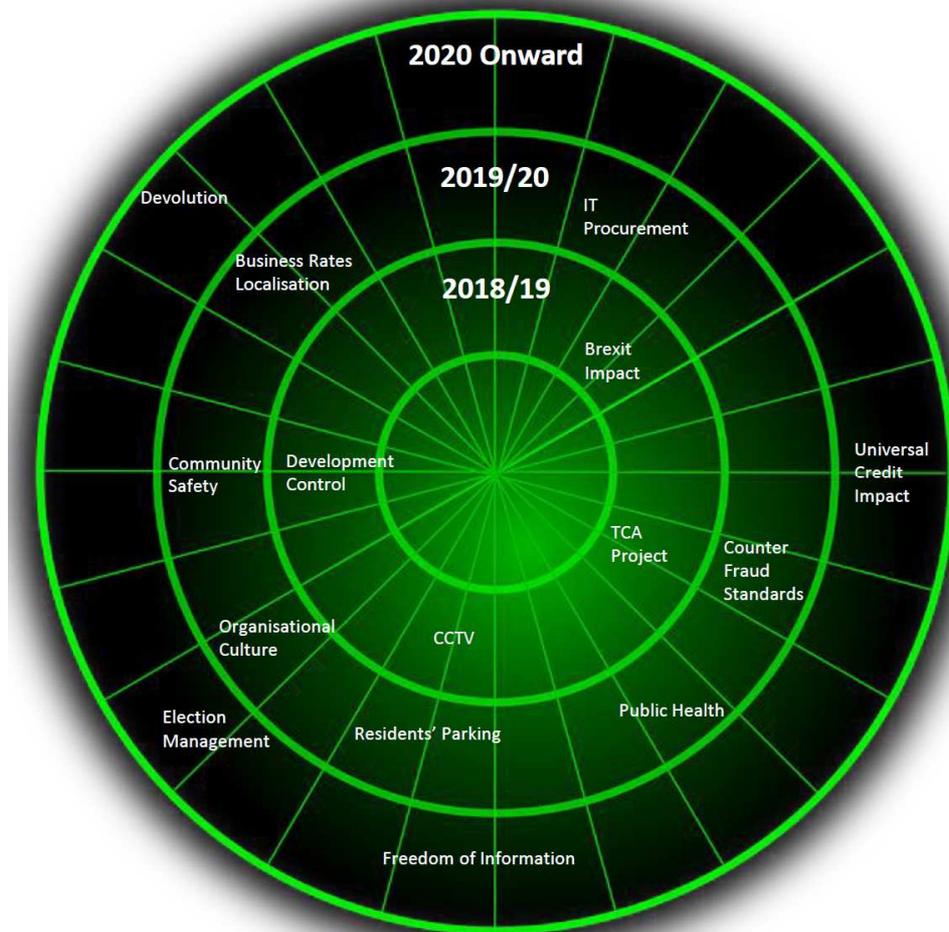
| Work Type                                       | Plan Days  | Planned Reports           |
|---|------------|---------------------------|
| Core Financial Systems                          | 49         | 5                         |
| Corporate Governance                            | 52         | 5                         |
| Operational Reviews                             | 206        | 19                        |
| Cross Authority & Independent Reviews           | 13         | 3                         |
| <b>Total Project Work</b>                       | <b>320</b> | <b>32</b>                 |
| Risk  | 40         | 2 (biannual to PRC)       |
| Counter Fraud                                   | 50         | n/a (in annual reporting) |
| Member Support                                  | 20         | 2 (biannual to Members)   |
| Follow-Up                                       | 40         | 4 (quarterly to CLT)      |
| Audit Planning                                  | 10         | 1 (annual to Members)     |
| Contingency                                     | 50         | n/a                       |
| <b>Total Non-Project Work</b>                   | <b>210</b> | <b>9</b>                  |
| <b>Total Audit &amp; Assurance Plan 2017/18</b> | <b>530</b> | <b>41</b>                 |

<sup>4</sup> Reviews not of shared services, but parallel reviews of similar work undertaken at two or more authorities resulting in a single output report

# MID KENT AUDIT

## Beyond 2017/18 – Other Issues on Audit’s Radar

16. During our planning and risk assessment we considered several areas where direct review was not suitable for 2017/18. Sometimes this is because the relatively low risk allows for longer period between reviews. In others we are aware of forthcoming changes to the service or environment that make review in 2018/19 or later more useful. In other cases we rely on our cyclical approach to scheduling reviews which happens to omit 2017/18.
17. The chart below shows some areas we expect to feature in planning in future years. At the beginning of each year we will consider afresh audit resource availability and risks when considering which areas to include in our planning. However, these are also areas we keep under review and so potentially examination could come forward if risks change.



18. We include a full listing of areas of audit interest (the “audit universe”) in appendix A.

# MID KENT AUDIT

## Delivering Audit Work

19. The risk-based approach taken to forming the plan integrates with our approach to individual projects. Besides any specific objectives agreed with the audit sponsor when drawing up the audit scope, each project considers the strategies, risks and objectives relevant to the service area under review. This includes identifying, and agreeing with management, suitable evaluation criteria to judge how well an area performs.
20. We will conduct each review in line with our standard audit method aligned to the Standards. Our Audit Charter sets out roles and responsibilities for successful delivery of audit projects. Members of this Committee approved the Charter in March 2016.
21. Each review results in an assurance rated report, giving our view on whether the particular area is performing effectively. We will keep these rating levels consistent with our reviewed approach adopted first in 2014/15. We include details of the assurance levels in this report at appendix C.
22. We will also, where fitting, make recommendations for improvement. We grade our recommendations as set out in appendix C and follow them up when due for action. Where we find officers have not acted on a recommendations and so left the Council at risk we report first to the Corporate Leadership Team. Also, the Audit, Governance and Standards Committee may demand that Senior Managers responsible for services that consistently fail to address audit recommendations attend to provide further explanation to Members.
23. Our plan also recognises the broader assurance work we deliver using our experience and expertise to aid the Council in pursuit of its priorities. We undertake this work in line with the arrangements set out in the Charter, in particular with those safeguards aimed at preserving our independence and objectivity.
24. Typically, our broader assurance work will not result in an assurance graded report but rather an alternative format relevant to the engagement agreed with the work's sponsor. In any event, we will tell the Committee results of other assurance work through our interim and year end reports.

# MID KENT AUDIT

## Monitoring Delivery

25. We undertake our audit work against our standard audit approach, assessed in our EQA as consistent with the Standards. Also we adhere to the IIA's Code of Ethics and the roles and responsibilities set out in the Charter.
26. As part of this approach we are careful to ensure the quality and consistency of our work. With individual audit projects, each undergoes internal review focusing on each stage from compilation of the original brief, through completion of fieldwork and last our reporting.
27. We undertake broader quality assurance of our work as detailed in our annual reports which include a full self-assessment against the Standards.
28. The Audit Shared Service Board also oversees our work each quarter. Mark Green is Maidstone's representative on the Board. The Board receives performance and financial reports on the progress of the service. This includes the set of performance indicators noted below, and we also report results to the Committee twice a year.
29. We also continue to develop and strengthen the professional expertise and experience of our audit team. In 2017/18 we will have four members of the team studying for professional qualifications to add to the nine already held across the team. We include more details about the audit team and the work to support and their development within appendix B.

## Performance Indicator Set 2017/18

- |                                  |                                     |
|----------------------------------|-------------------------------------|
| - Cost per audit day             | - % Satisfied with assurance        |
| - % Projects completed on budget | - % Final reports on time           |
| - % Chargeable days              | - % Satisfied with auditor conduct  |
| - PSIAS conformance              | - % Implemented recommendations     |
| - % Projects completed on time   | - % Exam success                    |
| - % Draft reports on time        | - % Satisfaction with auditor skill |

# MID KENT AUDIT

## Appendix A: Audit Universe

The table below sets out, in headline, the “audit universe”, comprising the recurring range of areas of potential examination by internal audit at Maidstone BC. The review areas noted will have specific scopes beneath which cover a broad and shifting range of specific topics. For example a “payroll” review may examine statutory deductions in one year, starter and leaver procedures in another, expenses and special payments in another and so on. So the scope of the audit may be broader or narrower than suggested by the title alone.

The table includes only the assurance rated reviews where we reported results to Members. It therefore excludes our advice, consultancy and follow-up work.

Last, the table excludes assurance work undertaken as one-off exercises where we do not expect a repeat review in the near to medium term.

A final note that in 2014/15 we changed our assurance ratings to the scheme detailed at Appendix C. Previously, our scale ran (from greatest to least assurance): High – Substantial – Limited – No Assurance. Although there are important differences in the detailed definitions, as a broad analogy these map to our current scale so we have employed a consistent colour scheme between the two scales.

| Review Area          | Last Reported: Date | Last Reported: Rating | Planned Next Review | Notes  |
|----------------------|---------------------|-----------------------|---------------------|--|
| Street Cleaning      | 2010/11             | Substantial           | 2017/18             |  |
| Insurance            | 2011/12             | High                  | 2017/18             |  |
| Complaints           | 2012/13             | Substantial           | 2017/18             |  |
| IT Disaster Recovery | 2012/13             | Substantial           | 2017/18             | Not assessed since operating as a shared service |
| Car Parking          | 2013/14             | Substantial           | 2017/18             |  |
| Food Safety          | 2013/14             | Substantial           | 2017/18             |  |
| Housing Grants       | 2013/14             | Substantial           | 2017/18             |  |
| Property Income      | 2013/14             | Substantial           | 2017/18             |  |
| Communications       | 2014/15             | Sound                 | 2017/18             |  |
| Data Protection      | 2014/15             | Weak                  | 2017/18             | Also subject to follow up through 2015/16        |
| Debtors              | 2014/15             | Substantial           | 2017/18             |  |
| Emergency Planning   | 2014/15             | Weak                  | 2017/18             | Also subject to follow up through 2015/16        |
| Budget Management    | 2015/16             | Sound                 | 2017/18             |  |

# MID KENT AUDIT

| Review Area          | Last Reported: Date | Last Reported: Rating | Planned Next Review | Notes   |
|----------------------|---------------------|-----------------------|---------------------|---|
| Business Rates       | 2015/16             | Strong                | 2017/18             |   |
| Council Tax          | 2015/16             | Sound                 | 2017/18             |   |
| Homelessness         | 2015/16             | Sound                 | 2017/18             |   |
| Planning Support     | 2015/16             | N/A                   | 2017/18             |   |
| Procurement          | 2015/16             | Sound                 | 2017/18             |   |
| Bereavement Services | 2016/17             | tbc                   | 2017/18             |   |
| Building Control     | 2016/17             | tbc                   | 2017/18             |   |
| Corporate Governance | 2016/17             | N/A                   | 2017/18             |   |
| ICT Network Controls | 2016/17             | Strong                | 2017/18             |   |
| Payroll              | 2016/17             | tbc                   | 2017/18             |   |
| Animal Welfare       |                     |                       | 2017/18             | First review as discrete area   |
| Contract Management  |                     |                       | 2017/18             | Individual contracts reviewed previously, first systemic review   |
| Debt Recovery        |                     |                       | 2017/18             | New service established 2016  |
| Democratic Services  |                     |                       | 2017/18             | First review as discrete area   |
| Economic Development |                     |                       | 2017/18             | Individual projects assessed, previously  |
| HR Policy Compliance |                     |                       | 2017/18             | First review as discrete area   |
| Land Charges         |                     |                       | 2017/18             | First review as discrete area   |
| Legal Services       |                     |                       | 2017/18             | Not previously assessed as a shared service   |
| Risk Management      |                     |                       | 2017/18             | 2017/18 will be independent review given change to MKA role   |
| Subsidiary Companies |                     |                       | 2017/18             | Timing dependent on extent of company activity, may be revised  |
| Sports Development   | 2009/10             | Substantial           | 2018/19             |   |
| Development Control  | 2012/13             | Substantial           | 2018/19             |   |
| Housing              | 2012/13             | Substantial           | 2018/19             | Will monitor Preventing Homelessness Bill, may bring review forward   |
| Spatial Planning     | 2012/13             | Substantial           | 2018/19             |   |
| Cash Collection      | 2013/14             | High                  | 2018/19             | Cash collection diminishing part of income, consider bringing review forward depending on income system implementation timing |
| CCTV                 | 2013/14             | Substantial           | 2018/19             |   |
| Equalities           | 2013/14             | Substantial           | 2018/19             |   |

# MID KENT AUDIT

| Review Area                    | Last Reported: Date | Last Reported: Rating | Planned Next Review | Notes  |
|--------------------------------|---------------------|-----------------------|---------------------|--|
| Markets                        | 2013/14             | Substantial           | 2018/19             |  |
| Museum                         | 2013/14             | Limited               | 2018/19             |  |
| Project Management             | 2013/14             | Substantial           | 2018/19             | Individual projects reviewed (as assurance and consultancy) since methodology review   |
| Business Continuity            | 2014/15             | Weak                  | 2018/19             |  |
| Recruitment                    | 2014/15             | Substantial           | 2018/19             |  |
| Waste Collection               | 2014/15             | Sound                 | 2018/19             |  |
| Licensing                      | 2015/16             | Sound                 | 2018/19             | During interim will be seeking some reliance on work of Sevenoaks DC audit team  |
| Members' Allowances            | 2015/16             | Sound                 | 2018/19             |  |
| Safeguarding                   | 2015/16             | Weak                  | 2018/19             |  |
| Café Management                | 2016/17             | Weak                  | 2018/19             | Pending operational decisions on café management   |
| Creditors                      | 2016/17             | tbc                   | 2018/19             |  |
| Discretionary Housing Payments | 2016/17             | Sound                 | 2018/19             | Potential expansion of future review into CTS hardship scheme  |
| General Ledger                 | 2016/17             | tbc                   | 2018/19             |  |
| Hazlitt Theatre                | 2016/17             | Weak                  | 2018/19             |  |
| Health & Safety                | 2016/17             | Weak                  | 2018/19             |  |
| Housing Benefits               | 2016/17             | Sound                 | 2018/19             |  |
| Performance Management         | 2016/17             | tbc                   | 2018/19             |  |
| Section 106 Agreements         | 2016/17             | Weak                  | 2018/19             |  |
| Treasury Management            | 2016/17             | Sound                 | 2018/19             |  |
| IT Development & Procurement   |                     |                       | 2018/19             | Considered previously as part of general reviews and planned for 2016/17, postponed and replaced with consultancy on 2017/18 as approach changes |
| Planning Support               |                     |                       | 2018/19             | First review as shared service   |
| Cobtree Golf Course            | 2010/11             | Substantial           | 2019/20             |  |
| Parks Income                   | 2011/12             | Substantial           | 2019/20             |  |
| Tourism                        | 2012/13             | Substantial           | 2019/20             |  |
| Banking                        | 2014/15             | Sound                 | 2019/20             |  |

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| Review Area               | Last Reported: Date | Last Reported: Rating | Planned Next Review | Notes  |
|---------------------------|---------------------|-----------------------|---------------------|--|
| Credit Cards              | 2014/15             | Sound                 | 2019/20             |  |
| Register of Interests     | 2014/15             | Weak                  | 2019/20             |  |
| VAT Management            | 2014/15             | Sound                 | 2019/20             |  |
| Grounds Maintenance       | 2015/16             | Sound                 | 2019/20             |  |
| Community Safety          | 2016/17             | Sound                 | 2019/20             |  |
| ICT Support               | 2016/17             | N/A                   | 2019/20             |  |
| Learning & Development    | 2016/17             | Sound                 | 2019/20             |  |
| Public Health             | 2016/17             | tbc                   | 2019/20             |  |
| Residents' Parking        | 2016/17             | tbc                   | 2019/20             |  |
| Leisure Centre            | 2015/16             | Sound                 | 2020/21             |  |
| Customer Services         | 2016/17             | Strong                | 2020/21             |  |
| Elections                 | 2016/17             | Sound                 | 2020/21             | Arrange timing around 2020 GE                    |
| Environmental Enforcement | 2016/17             | Sound                 | 2020/21             |  |
| Facilities Management     | 2016/17             | Sound                 | 2020/21             |  |
| Freedom of Information    | 2016/17             | tbc                   | 2020/21             | May move date depending on developments in law   |
| Public Conveniences       | 2016/17             | Sound                 | 2020/21             | May move date depending on contract arrangements |

# MID KENT AUDIT

## Appendix B: Team Biographies

### Management

**Rich Clarke CPFA ACFS (Head of Audit Partnership):** Rich became head of the audit partnership in April 2014 joining from KPMG. At KPMG he had various internal and external audit clients across the public sector including LB Islington, Woking BC, East Kent Hospitals University NHS Trust, the Foreign and Commonwealth Office and the Civil Aviation Authority. Rich is a Chartered Accountant (CPFA) and during 2015 undertook and passed further study to become an Accredited Counter Fraud Specialist (ACFS). Rich is also UK Local Government representative on the Internal Audit Standards Advisory Board, the body charged with updating the Public Sector Internal Audit Standards. In 2016 Rich also began ancillary work as a CIPFA associate, delivering training on CIPFA's behalf across the country on managing and improving internal audit teams. In addition, Rich is Chairman of the Kent Audit Group and an Executive Board Member of the London Audit Group, both groups comprising Heads of Audit from across the public sector.

**Russell Heppleston CMIIA (Deputy Head of Audit Partnership):** Russell started working for the Maidstone / Ashford partnership in November 2005, and continued his role as Auditor for the Mid Kent Audit Service on its creation in 2010. He progressed through professional qualifications with the Institute of Internal Auditors (IIA) to achieve both Practitioner and Chartered member status. Russell became Audit Manager for Swale and Maidstone in 2013, and later Deputy Head of Audit Partnership in the 2015 restructure. Russell is studying the International Diploma of Risk Management with the Institute of Risk Management.

**Frankie Smith CMIIA (Audit Manager – Swale & Tunbridge Wells):** Frankie Smith has worked in internal audit for 16 years, starting as an auditor at Maidstone Borough Council. During this time Frankie has completed audits at Ashford, Maidstone, Swale and Tunbridge Wells. Frankie achieved Chartered Auditor (CMIIA) status in August 2015 and became that same month Audit Manager at Swale and Tunbridge Wells.

**Alison Blake ACCA, CIRM (Audit Manager – Ashford & Maidstone):** Alison joined the internal audit partnership in 2012 and took on the role of Audit Manager in January 2016. Before this Alison worked for South Coast Audit for 7 years where she undertook internal audit work across various NHS clients in East Kent. During Alison's career she has completed a wide range of audit work with the aim of supporting the in achieving their objectives and the objectives of the organisation as a whole. In 2014 Alison achieved the Certificate qualification from the Institute of Risk Management.

# MID KENT AUDIT

## Senior Auditors

**Mark Goodwin ACFT (Senior Auditor):** Mark joined Ashford Borough Council in January 1999 having previously worked at Maidstone Borough Council in an audit role. He was a founder member of the Ashford and Maidstone Internal Audit Partnership before this developed into the four-way Mid Kent Audit Partnership in April 2010. He is an experienced auditor who has audited extensively the full range of council services across various local authorities. Mark achieved the Accredited Counter Fraud Technician (ACFT) designation from CIPFA in March 2016.

**Claire Walker (Senior Auditor):** Claire joined the audit partnership in September 2010, and has wide experience in various areas. These include Local and Central Government, Arts, Broadcasting, Financial Services, NGOs and Not for Profit Sector, also Lottery Fund distribution and associated grant making programmes. Claire delivered some training and mentoring projects for the FCO, DFID and the World Bank as well as work on European Social Fund projects. Within Local Government Claire has undertaken a wide range of audits with a focus on legal compliance, contracts and governance arrangements. Other audit experience covers outsourcing functions, due diligence, and fraud investigations.

**Jo Herrington PIIA CIA (Senior Auditor):** Jo joined the audit partnership on 30 September 2013. Before this Jo worked for Gravesham BC for nearly nine years where she gained experience of working in the Finance department and the Revenues department before settling in the Internal Audit team in September 2009. As part of the Internal Audit team she gained broad experience conducting audit reviews, as well as involvement in working groups across the authority. Jo became Senior Auditor in 2015 and has since gained qualifications as a Practitioner of the Institute of Internal Auditors (PIIA) in October 2015 and as a Certified Internal Auditor (CIA) in June 2016.

**Jen Warrillow PIIA (Senior Auditor):** Jen joined Mid Kent Audit in September 2013 from Kent County Council where she trained as an Internal Auditor. She undertook a wide range of audits including financial, governance and grant funding internally for the Council and externally for Parish Councils. Jen was previously an investigator at Swale BC and then moved on to Tonbridge & Malling BC. Having recently returned from maternity leave, she is now studying to become a Chartered Member of the Institute of Internal Auditors. Jen became a Senior Auditor in 2015.

# MID KENT AUDIT

## Auditors

**Paul Goodwin AAT (Auditor):** Paul started with Tunbridge Wells Borough Council over 25 years ago, and has since worked mainly in Internal Audit. Paul is a qualified Accounting Technician.

**Andy Billingham (Auditor):** Andy joined the Partnership in December 2015. He had previously worked for Swale Borough Council for 10 years within the Revenues and Benefits department. During this time, he gained extensive knowledge of local government, dealt with complex disputes and represented the authority at Tribunals. Andy holds a degree in History as well as an Institute of Revenue Rating and Valuation qualification. He is studying towards the Certified Internal Auditor (CIA) qualification.

## Trainee Auditors

**Ben Davis (Trainee Auditor):** Ben joined the team in March 2015 as a trainee auditor. He holds a degree in Modern History from UEA and has previous experience in finance teams in the private and voluntary sectors. Ben began training towards achieving a professional qualification through the Chartered Institute of Public Finance and Accountancy (CIPFA) and has progressed successfully through the qualification. He aims to achieve the full professional qualification in mid 2018.

**Louise Taylor (Trainee Auditor):** Louise joined the team in November 2015 as audit team administrator and became a trainee auditor in August 2016. Louise had previously worked in the Planning department of Maidstone Borough Council and has extensive experience working with local authorities. In early 2017 Louise began training to become a Certified Internal Auditor (CIA) with the Institute of Internal Auditors (IIA). She also holds an MA in Planning, Policy and Practice and a degree in Human Geography.

The Audit Team Administrator role is vacant but we plan to recruit in April 2017.

# MID KENT AUDIT

## Appendix C: Assurance & Recommendation Ratings

### Assurance Ratings 2017/18 (unchanged since 2014/15)

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

# MID KENT AUDIT

## Recommendation Ratings 2017/18 (unchanged since 2014/15)

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

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

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

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

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

# Agenda Item 9

## Audit, Governance & Standards

20 March 2017

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

Yes

## External Audit Progress Report March 2017

|   |  |
|---|--|
| <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 progress report attached at **Appendix A**.

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

The report is focused on ensuring that the auditor's opinion on the 2016-17 financial statements and value for money conclusion are issued by the statutory deadline of 30 September 2017.

### Timetable

| <b>Meeting</b>                          | <b>Date</b>   |
|---|---------------|
| Audit, Governance & Standards Committee | 20 March 2017 |

# External Audit Progress Report March 2017

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 Committee members are invited to consider the report of the external auditor which provides an update on progress with 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 The report attached at **Appendix A** provides an update on progress with the 2016-17 audit and informs committee members of a number of relevant emerging issues and developments.

---

## 3. AVAILABLE OPTIONS

- 3.1 It is recommended that the committee consider and note this report. The committee could choose not to consider this report, however this option is not recommended since the report is intended to assist the committee in discharging its responsibilities in relation to external audit and governance.

---

## 4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 It is recommended that the committee notes the report. Given the respective responsibilities of both the external auditor and this committee, a progress 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 focused on ensuring that the auditor's opinion on the 2016-17 financial statements and value for money conclusion are issued 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. 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. | Section 151 Officer & Finance Team |
| <b>Financial</b>                             | There are no direct financial implications arising from the report, although the opinion on the financial statements and value for money conclusion are one mechanism through which the council demonstrates financial accountability.   | Section 151 Officer & Finance Team |
| <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 A:** External Audit Progress Report March 2017

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## 7. BACKGROUND PAPERS

None

## **APPENDIX A**

# **EXTERNAL AUDIT PROGRESS REPORT AND UPDATE MARCH 2017**

**Audit, Governance and Standards Committee  
Maidstone Borough Council**

*Progress Report and Update  
Year ended 31 March 2017*

20 March 2017

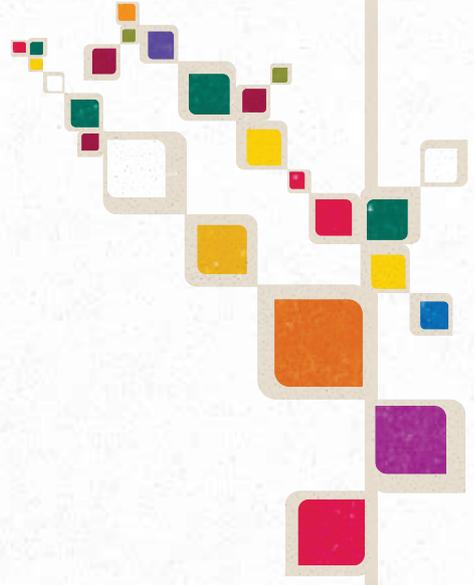
**Darren Wells**  
Engagement Lead  
**T** 01293 554 120  
**E** darren.j.wells@uk.gt.com

**Matt Dean**  
Engagement Manager  
**T** 020 7728 3181  
**E** matthew.dean@uk.gt.com

**Pratheesh Kulendran**  
In-Charge Accountant  
**T** 07792 549 288  
**E** pratheesh.kulendran@uk.gt.com



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.



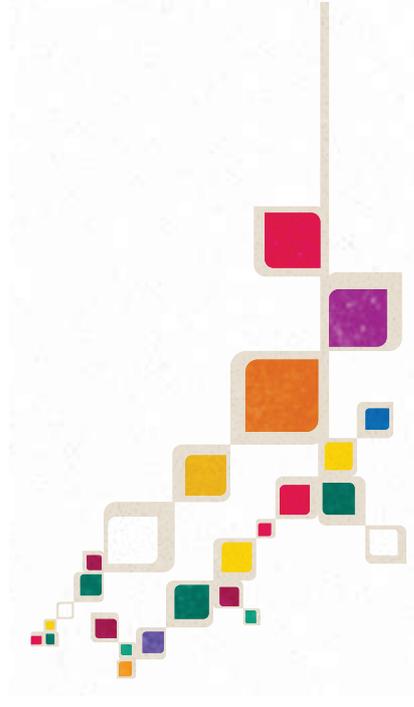
# Introduction

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

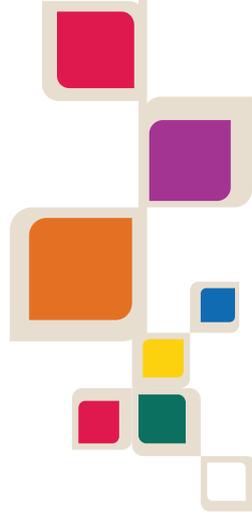
Members of the Audit, Governance and Standards Committee can find further useful material on our website [www.grantthornton.co.uk](http://www.grantthornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- CFO Insights – reviewing councils 2015/16 spend (December 2016); <http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016); <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- New laws to prevent fraud may affect the public sector (November 2016); <http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/>
- Brexit: local government – transitioning successfully (December 2016) <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

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 March 2017



## 2016/17 work

### Planned Date Complete? Comments

**Fee Letter**  
We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016

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.

### Accounts Audit Plan

We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.

March 2017

Yes

The Audit Plan has been prepared and is included as a separate item on the Agenda for this meeting.

## 47

### Interim accounts audit

Our interim fieldwork visit will include the following:

- updated review of the Council's control environment
- updated understanding of financial systems
- review of Internal Audit reports on core financial systems
- early work on emerging accounting issues
- early substantive testing
- Value for Money initial risk assessment.

January 2017

In progress

As documented within the Audit Plan, we have completed a large element of our interim work to date. We will be endeavouring to complete some early testing prior to year end to reduce the level of work needed in our final accounts visit, which is covered below.

### Final accounts audit

Including:

- audit of the 2016-17 financial statements
- proposed opinion on the Council's accounts
- proposed Value for Money conclusion
- 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

July 2017

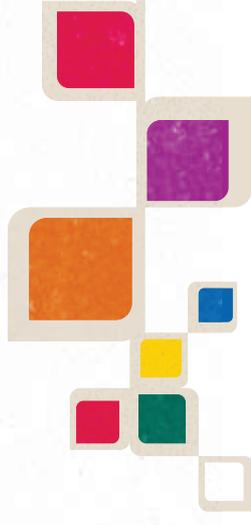
Not yet due

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 2017/18.

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.

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

# Progress at March 2017



## 2016/17 work

### Planned Date Complete? Comments

| Planned Date         | Complete?   | Comments   |
|----------------------|-------------|--|
| January to July 2017 | In progress | We have completed our initial Risk Assessment, and have reported the outcome of this in our Audit Plan. We will undertake further work as part of our final accounts visit and report this within our Audit Findings Report which we will issue in September 2017.   |
|                      |             | <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:</p> <p>'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><b>Other areas of work</b></p> <p>Meetings with Officers and others</p> |
|                      | In Progress | We will maintain our regular schedule of meetings with key Officers to ensure we are up to speed with key changes impacting on the Council.  |

# Technical Matters



## Highways network asset

On 14 November CIPFA/LASAAC announced a deferral of the move to measuring the Highways Network Asset ('HNA') at depreciated replacement cost in local authority financial statements for 2016/17. This is due to delays in obtaining updated central rates information that was required for the valuations.

CIPFA/LASAAC will issue an Update to the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom to confirm this decision once it has completed the full due process before publication. CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18 and will consider whether central rates and the central assurance processes will be delivered in a timely manner to allow successful implementation. It expects that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

In August, CIPFA published the 'Code of Practice on the Highways Network Asset (2016 Edition)' and additional guidance to aid the implementation process.

## Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures

## Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MIRS) and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

# Sector issues and developments



# Local Government Finance Settlement

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

## 100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey *2017 State of Local Government Finance* have recently been published. [http://downloads2.dodsmonitoring.com/downloads/Misc\\_Files/LocalGovFinance.pdf](http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf)

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

## Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

## Paul Dossett Head of Local Government in Grant

**Thornton LLP** has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCILG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax."

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will

## National developments

*"Social care precept changes will not help those living in more deprived areas"*

*"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"*

not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

### Links:

<https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018>

<http://www.granthonornton.co.uk/en/new-s-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/>

<http://www.granthonornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/>

# Pooling of LGPS

**From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'.** By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £1.3bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation

## National developments

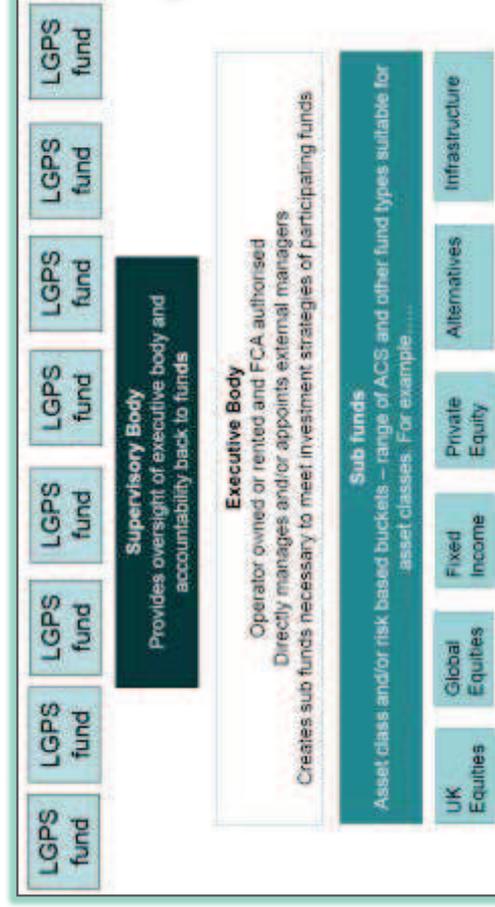
- having a responsible investment strategy
- reporting to employers and members

### Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article *Clear pools: the future of the LGPS* highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

Link: <http://www.cipfa.org/cipfa-thinks/cipfa-thinks-clear-pools-the-future-of-the-lgps/>



typical structure of LGPS Pool

# Fixing our broken housing market

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

“The housing market in this country is broken, and the cause is very simple: for too long, we haven’t built enough homes.”

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they’re behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

## National developments

Consultation on the White Paper will begin on 7 February 2017. The consultation will run for 12 weeks and will close on 2 May 2017.

The White Paper is available at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/590464/Fixing\\_our\\_broken\\_housing\\_market\\_-\\_print\\_ready\\_version.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf)

# Grant Thornton



# Apprentice Levy - Are you prepared?

## Grant Thornton update

### What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

### What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on payroll in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar to the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors. Payroll will be calculated based on total employee earnings subject to Class 1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

### What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill:  $250 \times £20,000 = £5,000,000$

Levy sum:  $0.5\% \times = £25,000$

Allowance:  $£25,000 - £15,000 = £10,000$  annual levy

### How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

# Off-payroll working and salary sacrifice in the public sector

## Grant Thornton update

### Off-payroll working

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

**HMRC Digital Tool** – will aid with determining whether or not the intermediary rules apply to ensure of “*consistency, certainty and simplicity*”.

When the proposals were originally made, the public sector was defined as “those bodies that are subject to the Freedom of Information rules”. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

This will increase costs, move responsibility to the engager and increase risks for the engager

### Salary sacrifice

The Chancellor's Autumn Statement 2016 speech also introduced changes to salary sacrifice arrangements. In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.



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## Audit, Governance & Standards

**20 March 2017**

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

**Yes**

## External Auditor's Audit Plan

|   |  |
|---|--|
| <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 audit plan attached at **Appendix A**.

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

The report is focused on ensuring that the auditor's opinion on the 2016-17 financial statements and value for money conclusion are issued by the statutory deadline of 30 September 2017.

**Timetable**

| <b><i>Meeting</i></b>                   | <b><i>Date</i></b> |
|---|--------------------|
| Audit, Governance & Standards Committee | 20 March 2017      |

# External Auditor's Audit Plan

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 Committee members are invited to consider and comment on the report of the external auditor on the proposed audit plan for the 2016/17 financial statements and value for money conclusion.
  - 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 The external auditor produces an annual audit plan for the financial statements audit opinion and value for money conclusion. As in previous years this work will be undertaken by Grant Thornton, the appointed auditors. A copy of the plan, which includes the outcomes of work undertaken to date, is attached at **Appendix A**.
- 

## 3. AVAILABLE OPTIONS

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

## 4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

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

## 5. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue                                 | Implications   | Sign-off                           |
|---------------------------------------|--|------------------------------------|
| <b>Impact on Corporate Priorities</b> | The report is focused on ensuring that the auditor's opinion on the 2016-17 financial statements and value for money conclusion are issued 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. 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. | Section 151 Officer & Finance Team |
| <b>Financial</b>                             | There are no direct financial implications arising from the report, although the opinion on the financial statements and value for money conclusion are one mechanism through which the council demonstrates financial accountability.   | Section 151 Officer & Finance Team |
| <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 A:** External Auditor's Audit Plan

## 7. BACKGROUND PAPERS

None

# **APPENDIX A**

## **EXTERNAL AUDIT AUDIT PLAN**



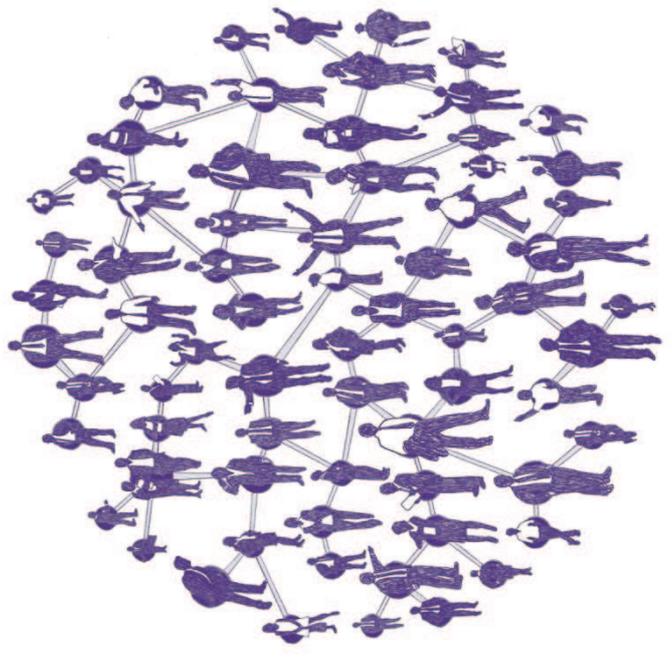
# The Audit Plan for Maidstone Borough Council

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**Year ended 31 March 2017**  
20 March 2017

**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)





Grant Thornton UK LLP  
 Grant Thornton House  
 Melton Street  
 London  
 NW1 2EP  
 T +44 (0)207383 5100  
 www.grant-thornton.co.uk

Maidstone Borough Council  
 Maidstone House  
 King Street  
 Maidstone  
 Kent  
 ME15 6JQ

20 March 2017

Dear Members of the Audit, Governance and Standards Committee

**Audit Plan for Maidstone Borough Council for the year ending 31 March 2017**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Maidstone Borough Council, the Audit, Governance and Standards Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Darren Wells

Engagement Lead

**Chartered Accountants**  
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# Understanding your business and key developments

## Developments

### Devolution and Partnership Working

Whilst Brexit has put some of the Kent devolution discussions on hold, the Council is continuing to develop its relationships with the other districts in North Kent, including some who haven't been the Council's traditional partners in joint working. Areas where joint working can be further advanced are currently being worked through as part of longer term plans to help ensure financial sustainability for the Council and across the whole of Kent as well.

### Demand for Temporary Housing

The demand for temporary housing within the Borough is coming under continued pressure, with the level of homelessness continuing to rise during the year. The pressure on suitable accommodation is not helped by other councils purchasing properties within the Borough to house their own homeless people, which then impacts on the accommodation available to house local homeless people. The Council has started to purchase its own properties to provide some of this accommodation with other schemes in the pipeline to provide a sustainable solution to this problem.

## Key challenges

### Autumn Statement and Spring Budget

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities. Increases in the funding for adult social care were also announced in the Spring Budget. The Council has a good track record of achieving financial targets, but recognises this is going to be even more challenging going forward.

### Identifying Savings and Income Generation

The Council has been able to identify sufficient savings and income generation opportunities to deliver a balanced budget for 2017/18 and 2018/19, but further savings are still needed for 2019/20 onwards. The Council will need to monitor these schemes closely to ensure they deliver the savings and benefits anticipated, and identify alternative schemes if needed.

## Key performance indicators

| Measure                 | Value  | Trend v Budget |
|-------------------------|--------|----------------|
| Revenue Outturn (at M9) | £19.7m | -£288k         |
| Savings plans           | £4m    | -£0.6m         |
| Capital Programme       | £9.52m | -£1.80m        |

## Financial reporting changes

### CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

### Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/18 financial year. 2016/17 is the last year for the Council to make sure it has its processes ready to make this a reality in 2017/18.

**Delivering Good Governance in Local Government Framework**  
CIPFA/Solace have issued a new Framework which applies to Annual Governance Statements from 2016/17 onwards. We will ensure that the Council has appropriate arrangements in place as part of our review at year end.

## Our response

- We aim to complete all our substantive audit work of your financial statements by the end of July 2017
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will review how the Council is working with partners as part of our work in reaching our Value for Money (VfM) conclusion. We will also consider your arrangements for managing and reporting your financial resources as part of this VfM Work
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

---

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,787k (being 2% of gross revenue expenditure). In the previous year, we determined materiality to be £1,794k (being 2% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors 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 we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £89k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. For the Council we have determined that cash warrants a lower level of materiality due to its sensitive nature and have set materiality for this area at £500k.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

## Significant risks identified

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

| Significant risk  | Description  | Audit procedures   |
|---|--|--|
| <b>The revenue cycle includes fraudulent transactions</b>     | <p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Maidstone Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Maidstone Borough Council.</p> |
| <b>Management override of controls</b>                        | <p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p>   | <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>• Review of unusual significant transactions</li> </ul>  |
| <b>The expenditure cycle includes fraudulent transactions</b> | <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered.</p>  | <p>We have considered this risk and do not consider it to require additional audit procedures because, based on your 2015/16 actual expenditure:</p> <ul style="list-style-type: none"> <li>• 58% relates to housing benefit expenditure, on which we perform detailed testing both for the purpose of our Accounts opinion, and our certification of the Council's housing benefit subsidy claim, which takes place later in the year.</li> <li>• The other main areas of expenditure are covered by the risks raised in respect of Operating Expenditure and Employee Remuneration, which can be seen on the following page of the Plan.</li> </ul>  |

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315). In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

## Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

| Reasonably possible risks       | Description of risk  | Audit procedures   |
|---------------------------------|--|--|
| Operating expenses              | Year end creditors and accruals are understated or not recorded in the correct period. | <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed a walkthrough of the Council's operating expenses system to update our understanding of the controls in place</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Perform substantive testing of operating expenditure across the year</li> <li>Testing of creditor payments, including accruals, for completeness, classification and occurrence.</li> <li>Review of control account reconciliations</li> <li>Cut-off testing of expenditure incurred either side of year end</li> <li>Review the allocation of apportioning expenses in the Comprehensive Income and Expenditure Statement (CIES) in line with the changes made as part of the CIPFA Telling the Story presentation changes.</li> </ul> |
| Employee remuneration (Payroll) | Employee remuneration accruals are understated   | <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed a walkthrough of the Council's payroll system to update our understanding of the controls in place</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Review the reconciliation between the payroll system and the general ledger at year end.</li> <li>Undertake substantive testing of employee remuneration expenses across the year</li> <li>Perform a trend analysis of employee remuneration expenses across the year and undertake follow up procedures on any unexpected movements or variances identified.</li> </ul>   |

## Other risks identified (continued)

| Reasonably possible risks                   | Description of risk  | Audit procedures  |
|---|--|---|
| Valuation of the pension fund net liability | The Council's pension fund net liability that is reflected in its balance sheet represents a significant estimate in the financial statements. | <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>Review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will also gain an understanding of the basis on which your valuation is carried out.</li> <li>Undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>Review the consistency of the pension fund net liability and disclosures in the notes to the financial statements with the actuarial report from your actuary.</li> <li>We will also write to the auditor of the Kent Superannuation Fund to gain assurance over the data provided to the Actuary by the Fund on behalf of the Council to enable them to come up with a reasonable estimate for inclusion within the Council's Accounts.</li> </ul> |

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

---

## Other risks identified (continued)

### Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management’s assessment of the going concern assumption and the disclosures in the financial statements.

### Other material balances and transactions

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

- Heritage assets
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- New note disclosures
- Officers’ remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes
- Funds held on trust note

# Value for Money

## Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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.*

This is supported by three sub-criteria as set out opposite:

| Sub-criteria                                  | Detail   |
|---|--|
| Informed decision making                      | <ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</li> <li>Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control</li> </ul> |
| Sustainable resource deployment               | <ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing and utilising assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>  |
| Working with partners and other third parties | <ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>   |

---

## Value for Money (continued)

### **Risk assessment**

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VFM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified one significant risk which we are required to communicate to you. This is set out overleaf.

### **Reporting**

The results of our VFM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by the end of September 2017.

## Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

| Significant risk  | Link to sub-criteria   | Work proposed to address  |
|---|--|---|
| <p><b>Financial position</b></p> <p>On its current trajectory, the Council is behind on its planned in-year General Fund position, largely due to the costs of providing temporary housing to those who have been made homeless. However an action plan has been put in place to manage this overspend during the course of 2016-17 to return the position to balance by year end.</p> <p>The longer term picture also looks challenging due to the likely continuation of pressures on temporary accommodation, the cessation of the Revenue Support Grant, along with changes to other areas such as Business Rates Retention. The Council will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on the long term financial stability of the Council.</p> | <p><b>Sustainable resource deployment</b></p> <p>This links to your arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p> | <p>We propose to:</p> <ul style="list-style-type: none"> <li>review the progress against the 2017-18 financial plan up to the completion of our audit; and</li> <li>obtain 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> |

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## Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

## Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

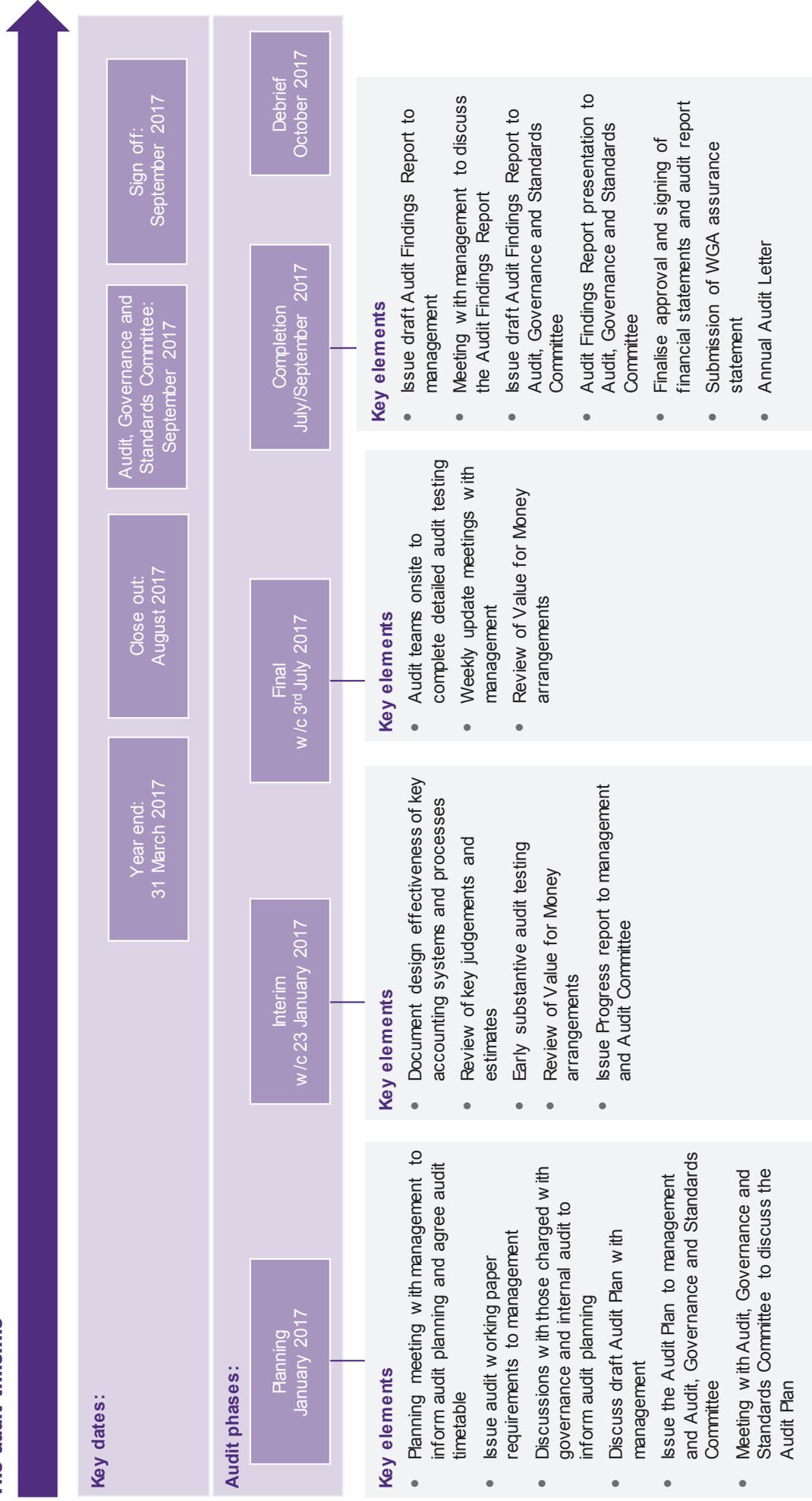
|  | Work performed   | Conclusion  |
|--|--|---|
| <b>Internal audit</b>                            | <p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date.</p>   | <p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach. We will update this review during the course of our audit to identify if any risks arise from reports issued later in the year.</p> |
| <b>Entity level controls</b>                     | <p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul> | <p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>  |
| <b>Review of information technology controls</b> | <p>We performed a high level review of the general IT (information technology) control environment, as part of the overall review of the internal controls system.</p> <p>IT controls were observed to have been implemented in accordance with our documented understanding.</p>  | <p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>  |

## Results of interim audit work (continued)

|                               | <b>Work performed</b>  | <b>Conclusion</b>  |
|-------------------------------|--|--|
| <b>Walkthrough testing</b>    | <p>We have completed walkthrough tests of the Council's controls operating in areas where we consider there is a risk of material misstatement to the financial statements. These areas are operating expenditure and employee remuneration.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p> | <p>Our work to date has not identified any weaknesses which impact on our audit approach.</p> <p>We will undertake our walkthrough of the controls in place around the actuarial valuation of the pension fund liability at year end once the processes around these have taken place. Should any issues be identified then we will report this within the Audit Findings Report, which we will issue in September following the completion of our final accounts visit.</p> |
| <b>Journal entry controls</b> | <p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>   | <p>Our work to date has not identified any weaknesses which impact on our audit approach.</p> <p>We will also be undertaking detailed testing on journal transactions recorded during the financial year, by extracting 'unusual' entries for further review. Again should any issues be identified from this work then we will report this within our Audit Findings Report, mentioned above.</p>   |

## The audit cycle

### The audit timeline



# Audit Fees

## Fees

|   | £             |
|---|---------------|
| Council audit                           | 50,475        |
| Grant Certification                     | 10,433        |
| <b>Total audit fees (excluding VAT)</b> | <b>60,908</b> |

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Constructive feedback on your people, your processes and your business plan
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit, Governance and Standards Committee Progress Reports

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## Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Maldstone Borough Council, and can confirm that no audit related or non-audit services have been identified for the Council for 2016/17.

# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan  | Audit Plan | Audit Findings |
|---|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance   | ✓          |                |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications  | ✓          |                |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought |            | ✓              |
| Confirmation of independence and objectivity  | ✓          | ✓              |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.                                | ✓          | ✓              |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.   |            |                |
| Details of safeguards applied to threats to independence  |            |                |
| Material weaknesses in internal control identified during the audit   |            | ✓              |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements  |            | ✓              |
| Non compliance with laws and regulations  |            | ✓              |
| Expected modifications to the auditor's report, or emphasis of matter   |            | ✓              |
| Uncorrected misstatements   |            | ✓              |
| Significant matters arising in connection with related parties  |            | ✓              |
| Significant matters in relation to going concern  | ✓          | ✓              |



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## Audit, Governance and Standards Committee

**20 March 2017**

|   |           |
|---|-----------|
| Is the final decision on the recommendations in this report to be made at this meeting? | <b>No</b> |
|---|-----------|

## Budget Strategy – Risk Assessment Update

|                                       |  |
|---------------------------------------|--|
| <b>Final Decision-Maker</b>           | Council                                      |
| <b>Lead Director</b>                  | Director of Finance and Business Improvement |
| <b>Lead Officer and Report Author</b> | Director of Finance and Business Improvement |
| <b>Classification</b>                 | Public                                       |
| <b>Wards affected</b>                 | All  |

**This report makes the following recommendation:**

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

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

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

**Timetable**

| <i><b>Meeting</b></i>                     | <i><b>Date</b></i> |
|---|--------------------|
| Audit, Governance and Standards Committee | 20 March 2017      |

# Budget Strategy – Risk Assessment Update

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Accordingly, as part of the process of setting a budget for 2017/18, the Committee considered a risk analysis produced by the Finance Service for the Budget Strategy at its meeting on 16 January 2017.
- 1.2 Members requested that the risk matrix and register be updated and reported to each meeting of the Committee, so that they continued to be fully briefed on how (for example) the changing economic environment affects the Council's budget position.

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## 2. INTRODUCTION AND BACKGROUND

- 2.1 The key element in the Council's budget strategy is its rolling five year Medium Term Financial Strategy (MTFS). The current MTFS also fulfils the government's requirement that the Council prepare and publish an Efficiency Plan. The MTFS and Efficiency Plan were approved by Council in September 2016.
- 2.2 Officers subsequently developed detailed budget proposals for 2017/18 and the remaining four years of the medium term financial strategy. Following a thorough review of the budget proposals by the Council's Service Committees and some modifications, these were reflected in the annual budget for 2017/18 approved by Council at its meeting on 1<sup>st</sup> March 2017.
- 2.3 The updated Strategic Revenue Projections accompanying the budget report indicate a balanced budget position for the Council in 2017/18 and 2018/19, provided that all planned savings are delivered. However, there is a shortfall between savings identified and savings required in the remaining three years of the five year budget planning period. This is largely a function of:
  - 'negative Revenue Support Grant' of £1.589 million that the government plans to levy on the Council in 2019/20
  - uncertainty around future local government funding following the end of the current four year funding settlement from 2020/21 onwards.
- 2.4 Appendix A describes the budget risks in the form of a risk matrix and risk register. The risk profile has been reviewed by the Finance Service, with input from Internal Audit, since it was last presented to the Audit, Governance and Standards Committee at its January meeting. Factors considered in this review and their potential impact on the risk profile are as follows.

| Risk   | Factor considered  | Implications for risk profile                         |
|--|--|---|
| Failure to deliver a balanced budget               | Balanced budget agreed by Council for 2017/18  | Impact – no change<br>Likelihood - reduced slightly   |
| Failure to deliver a balanced budget               | Reduction in projected overspend Councilwide for 2016/17 (as reported to P & R Committee in February 2017)   | Impact – no change<br>Likelihood - reduced slightly   |
| Fees and Charges fail to deliver sufficient income | Housing White Paper 'Fixing our Broken Housing Market' published February 2017 offers potential to increase Planning Fees  | Impact – no change<br>Likelihood - reduced slightly   |
| Commercialisation                                  | Budget overspend on Mote Park café in 2017/18 now projected to be £197K. Plans in place to move from in-house provision to an outsourced provider with effect from Autumn 2017.                                    | Impact – no change<br>Likelihood - increased          |
| Funding the capital programme                      | Housing White Paper states that local authority affordable housing developments must incorporate a 'right to buy', which may have a negative impact on the viability of the Council's housing investment programme | Impact – no change<br>Likelihood - increased slightly |
| Business Rates Pool                                | Projected benefit from Kent Business Rates Pool to increase from £5.1m to £7.5m in 2017/18 (county-wide)   | Impact – no change<br>Likelihood - reduced slightly   |

Most of the above factors have had no, or only marginal, implications for risk impact and likelihood. The only exception is commercialisation, where the performance of the Mote Park Café demonstrates an increased risk from commercialisation. Whilst mitigation measures are now being put in place, for the time being it is appropriate to increase the risk likelihood score from '2' to '3' for commercialisation and this is reflected in the risk matrix and risk register. New / developing controls have been added to the risk register and will continue to be monitored and updated. Other than this, it is not proposed to amend the risk matrix and risk register set out in Appendix A at this stage.

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### **3. AVAILABLE OPTIONS**

- 3.1 The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This may impact the Finance Section's service planning and/or be reflected in the developing Medium Term Financial Strategy.
  - 3.2 There is no constitutional requirement for Policy and Resources Committee to consult with the Audit Governance and Standards Committee on this matter, and it is open to the Committee to make no comments or recommendations.
- 

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

- 4.1 Each year the council as part of the development of the MTFS and budget carries out consultation on the priorities and spending of the council.
  - 4.2 Consultation on the budget in Autumn 2016 took the form of a short survey. Residents were asked to prioritise ten areas of spending and then to consider whether the spending for those ten areas should remain the same, be reduced or cut altogether. The survey could be accessed both as a paper document or on-line via the Council's website. It was promoted through face to face budget roadshows at a wide range of venues around the borough, in the Kent Messenger and in a range of other media. The results of the consultation were set out in reports to the Service Committees on the budget proposals.
- 

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

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

## 6. CROSS-CUTTING ISSUES AND IMPLICATIONS

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

|  |  |  |
|--|--|--|
| <b>Equality Impact Needs Assessment</b>      | The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services.<br>In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities. | Director of Finance and Business Improvement |
| <b>Environmental/Sustainable Development</b> | The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.   | Director of Finance and Business Improvement |
| <b>Community Safety</b>                      | The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.   | Director of Finance and Business Improvement |
| <b>Human Rights Act</b>                      | None   |  |
| <b>Procurement</b>                           | The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.   | Director of Finance and Business Improvement |
| <b>Asset Management</b>                      | Resources available for asset management are contained within the budget proposals.  | Director of Finance and Business Improvement |

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## 7. BACKGROUND PAPERS

None.

## Budget Strategy Risks

### Summary

As part of the budget strategy we have conducted an assessment of the associated risks. The risk matrix below provides a summary of the key risks, and the risk register that follows provides more detail on each risk.

|                  |   |        |   |               |      |   |
|------------------|---|--------|---|---------------|------|---|
| Likelihood<br>89 | 5 |        |   |               |      |   |
|                  | 4 |        |   |               |      |   |
|                  | 3 |        |   | D,<br>F, G    | J    |   |
|                  | 2 |        | M | B, E,<br>K, L | A, H |   |
|                  | 1 |        | I | C             |      |   |
|                  |   | 1      | 2 | 3             | 4    | 5 |
|                  |   | Impact |   |               |      |   |

- A. Failure to deliver a balanced budget
- B. Insufficient balances
- C. Inaccurate inflation rate prediction
- D. Changes in government economic strategy
- E. Constraints on council tax increases
- F. Fees & Charges
- G. Commercialisation
- H. Funding the capital programme
- I. Financial Regulation
- J. Delivery of planned savings
- K. Business Rates & Council Tax collection
- L. Business Rates pool
- M. Shared services

## Budget Strategy Risk Register 2017/18

The following risk register sets out the key risks to the budget strategy 2017/18 onwards. The register sets out the consequences of each risk and the existing controls in place. Controls highlighted in **red** indicate updates since January 2017.

| Ref     | Risk (title & full description)   | Consequences  | Key Existing Controls  | Overall Risk rating |   |   |
|---------|---|---|--|---------------------|---|---|
|         |   |   |  | I                   | L | Σ |
| 06<br>A | <p><b>Failure to deliver a balanced budget</b><br/>Stages of the budget setting process fail resulting in Council breaching the legal requirement to set a balanced budget</p>  | <p>Management of the Council would be removed from Members if it failed to set a balanced budget.</p> <p>Failure to plan for a balanced budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.</p> | <p>- Embedded and well established budget setting process</p> <p>- Medium Term Financial Strategy</p> <p>- Broadly balanced position for the next three years (2017/18 – 2019/20)</p> <p><b>- Balanced budget agreed by Council for 2017/18. Reductions in projected overspend reported to Policy &amp; Resources in February.</b></p> | 4                   | 2 | 8 |
| B       | <p><b>Insufficient Balances</b><br/>Minimum balance is insufficient to cover unexpected events<br/>OR<br/>Minimum balances exceed the real need and resources are held without identified purpose with low investment returns</p> | <p>Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves.</p> <p>The Council would not gain best value from its resources as Investment returns are low in the current market.</p>  | <p>- The Council has set a lower limit below which General Fund balances cannot fall of £2 million.</p> <p>- At the beginning of the 2016/17 financial year General Fund balances stood at £4.6 million.</p>   | 3                   | 2 | 6 |
| C       | <p><b>Inaccurate inflation rate predication</b><br/>Actual levels are significantly above or below prediction</p>   | <p>Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.</p> <p>Services have supported the budget strategy through savings. Levels below those expected would result in</p>  | <p>- Allowances for inflation are developed from three key threads:</p> <ul style="list-style-type: none"> <li>○ The advice and knowledge of professional employees</li> <li>○ The data available from national</li> </ul>   | 3                   | 1 | 3 |

| Ref | Risk (title & full description)  | Consequences   | Key Existing Controls  | Overall Risk rating |   |   |
|-----|--|--|--|---------------------|---|---|
|     |  | an increase in balances or unused resources that could be used to achieve strategic priorities.  | <p>projections</p> <ul style="list-style-type: none"> <li>○ An assessment of past experience both locally and nationally</li> </ul> <p>- Current inflation projections are in line with the Bank of England and economic commentators.</p>   |                     |   |   |
| D   | <p><b>Changes in government economic strategy</b></p> <p>Unexpected shocks lead to changes in Local Government funding. Government strategy fails to address economic challenges, such as those which could arise from Brexit.</p>     | <p>The Council will no longer receive Revenue Support Grant (RSG) after 2016/17, but will be subject to 'negative RSG' in 2019/20 and the amount of this negative RSG – effectively a government tax on the Council – could increase if public finances come under pressure.</p> | <p>- The medium term financial strategy to 2021/22 has been developed to allow for a significant impact on the Council's resources,</p> <p>- The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.</p>   | 3                   | 3 | 9 |
| E   | <p><b>Constraints on council tax increases</b></p> <p>The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than 2% per annum.</p> | <p>The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be absorbed by making savings elsewhere.</p>  | <p>- Planning for the budget 2017/18 has been based upon a £4.95 (2.06%) increase, as agreed by Policy and Resources Committee at its meeting on 29 June 2016 and by full Council at its meeting on 1<sup>st</sup> March 2017.</p> <p>- No issues have been raised in relation to the proposed increase through consultation.</p>  | 3                   | 2 | 6 |
| F   | <p><b>Fees &amp; Charges</b></p> <p>Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.</p>                                    | <p>The total value of all Council income from fees and charges is in excess of £16 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.</p>  | <p>- Fees and charges are reviewed each year, paying careful attention to the relevant market conditions</p> <p>- Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income.</p> <p>- Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised.</p> | 3                   | 3 | 9 |

| Ref | Risk (title & full description)   | Consequences   | Key Existing Controls   | Overall Risk rating |   |   |
|-----|---|--|---|---------------------|---|---|
|     |   |  |   | I                   | L | Σ |
| G   | <p><b>Commercialisation</b></p> <p>The commercial activities currently being delivered and projected in the MTFS do not deliver the expected level of income.</p> | <p>The medium term financial strategy includes a contribution from commercial opportunities, so any shortfall would have an impact on the overall strategy.</p> <p>Income generation from commercial activities supports the revenue budget and is required in order to pay back capital investment.</p> | <p>- The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses.</p> <p>- Individual risks associated with specific projects within commercialisation strategy will be assessed, both as part of the project appraisal process and during the course of delivering the projects.</p> <p>- Decision made to outsource the management of the Mote Park Café from Autumn 2017.</p>   | 3                   | 3 | 9 |
| H   | <p><b>Funding the capital programme</b></p> <p>Reduction or total loss of funding sources means that the capital programme cannot be delivered</p>                | <p>The main sources of funding are:</p> <ul style="list-style-type: none"> <li>○ New Homes Bonus</li> <li>○ Capital Grants</li> <li>○ Prudential borrowing</li> <li>○ Developer contributions (\$106)</li> </ul> <p>A reduction in this funding will mean that future schemes cannot be delivered.</p>   | <p>- Council has been able to fund the capital programme without recourse to borrowing,</p> <p>- Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria.</p> <p>- Local authorities continue to be able to access borrowing at relatively low cost through the Public Works Loan Board and our treasury advisers expect this to continue being the case.</p> <p>- Council remains active and aware of Housing White Paper to incorporate 'right to buy' – and the impact on the Housing investment programme.</p> | 4                   | 2 | 8 |

| Ref     | Risk (title & full description)  | Consequences   | Key Existing Controls   | Overall Risk rating |   |    |
|---------|--|--|---|---------------------|---|----|
| I       | <p align="center"><b>Financial Regulation</b></p> <p>Complexity of financial and other regulations along with increasing delays in providing guidance reduce the ability of the Council to identify risks at an early stage.</p> | <p>On a small number of occasions the financial consequences of future events are likely to be significant. Failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy.</p> <p>In general these events bring consequences to other agencies and external relationships.</p>   | <ul style="list-style-type: none"> <li>- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents.</li> <li>- Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.</li> </ul>  | 2                   | 1 | 2  |
| 96<br>J | <p align="center"><b>Delivery of planned savings</b></p> <p>Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget</p>   | <p>The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation.</p> <p>Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p> | <ul style="list-style-type: none"> <li>- The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process.</li> <li>- Savings proposals are separately identified and monitored in the Council's general ledger.</li> <li>- The ability to achieve the targeted savings is reported quarterly to Corporate Leadership Team and to Service Committees.</li> </ul> | 4                   | 3 | 12 |
| K       | <p align="center"><b>Business Rates &amp; Council Tax collection</b></p> <p>Council fails to maintain collection targets for business rates and council tax</p>  | <p>Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.</p> <p>Business rates due are in excess of £60 million for 2017/18.</p> <p>Council tax due is in excess of £80 million per annum.</p>                          | <ul style="list-style-type: none"> <li>- The Council has a good track record of business rates and Council Tax collection.</li> <li>- Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc.</li> </ul>  | 3                   | 2 | 6  |

| Ref | Risk (title & full description)  | Consequences  | Key Existing Controls   | Overall Risk rating |   |   |
|-----|--|---|---|---------------------|---|---|
| L   | <p align="center"><b>Business Rates pool</b></p> <p>Changes to rateable value (RV) or instability of business rates growth within the pool means that members require support from the Council</p> | <p>Membership of Business Rates Pool precludes access to the central government safety net.</p> <p>Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.</p>             | <p>- Provisions exist so any loss of income would relate to the excess over the provision already made.</p> <p>- The pool is monitored quarterly Kent wide and Maidstone is the Pool administrator. <b>Projected benefit of pool increased from £5.1m to £7.5m.</b></p> <p>- The Council has the ability to exit the pool on 1<sup>st</sup> April in any year by giving notice by the previous September.</p> | 3                   | 2 | 6 |
| M   | <p align="center"><b>Shared Services</b></p> <p>Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.</p>                                   | <p>Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p> | <p>The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.</p>   | 2                   | 2 | 4 |

# Impact & Likelihood Scales

## RISK IMPACT

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

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# RISK LIKELIHOOD

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

**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<br><b>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<br><b>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>  | Liz Norris, Business Support Manager, Revenues and Benefits |
| 16 January 2017  | <b>Complaints Received Under the Members' Code of Conduct</b>   | Donna Price, Interim Deputy Head of Legal Partnership       |
| 20 March 2017  | <b>Internal Audit and Assurance 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                              |
| 20 March 2017  | <b>Regular Review of Risk Assessment of Budget Strategy 2017/18 Onwards</b>   | Mark Green, Director of Finance and Business Improvement    |
| 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                      |