

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 20 November 2017
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Adkinson, Butler, Coulling (Parish Representative), Daley,
English (Vice-Chairman), Fissenden, Garland, Harvey,
McLoughlin (Chairman) and Perry

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Issued on Friday 10 November 2017

Continued Over/:

Alison Broom

Alison Broom, Chief Executive

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PUBLIC SPEAKING

In order to book a slot to speak at this meeting of the Audit, Governance and Standards Committee, please contact 01622 602030 or send an email to committeeservices@maidstone.gov.uk by 5.00 p.m. one clear working day before the meeting. If asking a question, you will need to provide the full text in writing. If making a statement, you will need to tell us which agenda item you wish to speak on. Please note that slots will be allocated on a first come, first served basis.

ALTERNATIVE FORMATS

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 committeeservices@maidstone.gov.uk or **01622 602030**. To find out more about the work of the Committee, please visit www.maidstone.gov.uk

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON MONDAY 18 SEPTEMBER 2017

Present: Councillor McLoughlin (Chairman), and
Councillors Adkinson, Butler, Coulling, Daley,
Fissenden, Harvey and Perry

26. APOLOGIES FOR ABSENCE

There were no apologies.

27. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

28. URGENT ITEMS

There were no Urgent Items.

29. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

30. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

31. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

32. EXEMPT ITEMS

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

33. MINUTES OF THE MEETING HELD ON 26 JUNE 2017

RESOLVED: That the Minutes of the meeting held on 26 June 2017 be approved as a correct record and signed.

34. PRESENTATION OF PETITIONS

There were no petitions.

35. QUESTIONS AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

36. COMMITTEE WORK PROGRAMME

RESOLVED: That the Audit, Governance and Standards Committee work programme for 2017/18 be noted.

37. CONTRACT MANAGEMENT

The Head of Commissioning and Business Improvement presented this item to the Committee, which set out the Council's current contract management arrangements and steps that were being taken to raise the overall standard of contract management.

It was noted that:

- Most of the Council's contracts had received positive audits, except for the Hazlitt Theatre and Park & Ride, whose assurance was classed as weak. Since the audit, actions had been reviewed and improvement plans had been put in place for both services.
- Further monitoring was carried out through Key Performance Indicators, which are reported to the relevant committees.
- A new role, Contracts and Compliance Officer – Leisure and Culture, had been introduced and was currently being filled by a temporary agency officer whilst the recruitment to the substantive role was completed.
- Construction projects with a high one off spend with a contractor, as opposed to longer term service delivery contracts, required both good project management as well as good contract management. Paragraph 2.8 showed the successful arrangements that had been put in place for the town centre public realm improvements.
- A further improvement, that planned to raise the standard of contract management, was the refreshed Commissioning and Procurement Strategy, which encompassed contract management.

In response to questions and comments, it was explained that:

- The new substantive post holder for the position of Contracts and Compliance Officer – Leisure and Culture would start in the next few weeks.
- A risk assessment had been carried out at the Hazlitt Theatre and there was only one item left outstanding. The Officer agreed to report back to the Committee by email in relation to this outstanding issue and also as to whether there was a sprinkler system in place.
- There were positives and negatives to taking on long term contracts and that there were clear procedures in place if a problem arose.

The Committee requested an update on this topic before the end of the municipal year.

RESOLVED: That the progress in implementing good practice in contract management is noted.

38. CO-OPTED INDEPENDENT MEMBERS

The Committee considered the report of the Head of Audit Partnership, which set out the advantages and disadvantages of different compositions of committee models elsewhere in Local Government.

It was noted that:

- The reason for adding co-opted members to this Committee was to enhance the model and not because the current model of this Committee was seen as insufficient.
- The cost of employing a co-opted member for this Committee could range from £800 to £1000 for the year.
- The co-opted members would be non-voting.

The Committee was not convinced that two co-opted members were required, as both internal and external auditors already attended the meetings of this Committee, as well as non-voting Parish Council representatives.

The Committee voted on the following recommendations set out in the report:

1. That this Committee **RECOMMENDED** to **COUNCIL** the changes in the constitution to allow the Audit, Governance and Standards Committee to include co-opted independent members.
2. That the Director of Finance and Business Improvement be given delegated powers to, in consultation with the Chair of the Audit, Governance and Standards Committee and following the above constitutional changes, fill the role of the co-opted independent members. This will include composing a job description, setting pay and managing recruitment.

The voting was as follows: For – 1 Against – 6

39. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

The Committee considered the report of the Director of Finance and Business Improvement updating the risk assessment of the Budget Strategy.

It was noted that:

- The performance so far this year was broadly in line with budget, although there would be a potential overspend in both temporary accommodation and planning appeals. At this stage in the financial year there was still scope for covering these overspends by reducing expenditure elsewhere.
- The position of Local Government funding after 2019/20 remained unclear, but it was encouraging to see that pilot schemes for 100% business rates retention were proceeding.

In response to a question from the Committee, it was explained that Officers would continue to monitor any changes central government made to lifting the public sector pay cap.

RESOLVED: That the updated risk assessment of the Budget Strategy, at Appendix A, be noted.

40. AUDITED STATEMENT OF ACCOUNTS 2016/17

The Committee considered the report of the Director of Finance and Business Improvement.

It was noted that:

- Since the Committee saw the Draft Statement of Accounts for 2016/17 in June, there were no material changes to the figures.
- The External Audit work had been completed since then and the Audit Findings Report, attached at Appendix A, detailed these findings. The Audit Findings Report made one recommendation, on page 28, which concerned record keeping for plant and equipment and this had been accepted by officers.
- The Audit Findings Report included a review of Value for Money. It concluded that this Council had put in place the proper arrangements to secure Value for Money in its use of resources for the year ending 31 March 2017.
- A Letter of Representation, attached at Appendix C, would be signed by the Chairman of this Committee and the Director of Finance and Business Improvement.
- Changes to Local Audit Regulations, associated with the Local Audit and Accountability Act meant that from 2017/2018, the timetable for preparing and approving the accounts would be brought forward. This meant that the audit deadline would be brought forward to 31 July 2018 and because it was not practical to do so, it was recommended that the Final Statement of Accounts would be presented to this Committee in July only.

- Officers agreed to circulate the Draft Statement of Accounts to this Committee for comment prior to the deadline on 31 May.
- Officers also agreed to consider including a more detailed diagram in the Statement of Accounts 2017/18, showing the expenditure graphically in the same way that income was currently expressed.

RESOLVED:

1. That the external auditor's Audit Findings Report, attached at Appendix A, be noted.
2. That the audited statement of accounts, attached at Appendix B, be approved.
3. That the Letter of Representation, attached at Appendix C, be approved.

That the proposed approach to signing off future financial statements, as detailed at paragraph 2.11, be noted.

41. EXTERNAL AUDITOR APPOINTMENT UPDATE

The Committee considered the report of the Director of Finance and Business Improvement, which detailed an update on the appointment of the External Auditor.

It was noted that the Council had joined a procurement arrangement run by the Public Sector Audit Appointments Ltd (PSAA) on 7 December 2016. The PSAA had allocated Grant Thornton as the Council's external auditor.

RESOLVED:

1. That the proposal of PSAA for Grant Thornton to continue as the Council's external auditor be noted.
2. That the Director of Finance and Business Improvement will respond to PSAA's consultation, taking into account comments from Members, be noted.

42. DURATION OF MEETING

6.34 p.m. to 7.53 p.m.

2017/18 AGS COMMITTEE WORK PROGRAMME

Report Title	Work Stream	Committee	Month	Lead	Report Author
Annual Governance Statement Update	Corporate Planning	AGS	Jan-18	Angela Woodhouse	Angela Woodhouse
Counter Fraud Standards Update	Updates, Monitoring Reports and Reviews	AGS	Jan-18	Rich Clarke	Rich Clarke
Budget Strategy 2018/19 - Risk Assessment	Corporate Finance and Budgets	AGS	Jan-18	Mark Green	
Treasury Management Strategy 2018/19	Corporate Finance and Budgets	AGS	Jan-18	Ellie Dunnet	John Owen
Audit & Assurance Plan	Audit	AGS	Mar-18	Rich Clarke	Rich Clarke
Audit Charter Update	Audit	AGS	Mar-18	Rich Clarke	Rich Clarke
Risk Management Update	Audit	AGS	Mar-18	Russell Heppleston	Russell Heppleston & Alison Blake
External Audit Update Report March 2018	Corporate Finance and Budgets	AGS	Mar-18	Mark Green	Ellie Dunnet
External Auditor's Audit Plan 2017/18	Corporate Finance and Budgets	AGS	Mar-18	Mark Green	Ellie Dunnet

Audit, Governance & Standards Committee 20 November 2017
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Complaints Received under the Members' Code of Conduct

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service/Lead Director	Patricia Narebor – Head of Legal Partnership and Monitoring Officer
Lead Officer and Report Author	Donna Price – Interim Deputy Head of Legal Partnership
Classification	Public
Wards affected	All

Executive Summary

The report provides an update to the Committee on complaints received under the Members' Code of Conduct for the period 1 June 2017 to 31 October 2017. The Committee are asked to note the contents of the report.

This report makes the following recommendations to this Committee:

1. The Committee are asked to note the contents of the report.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	20 November 2017

Complaints Received under the Members' Code of Conduct

1. INTRODUCTION AND BACKGROUND

- 1.1 It is a requirement under the Localism Act 2011 that all Councils adopt a Code of Conduct and that the Code adopted must be based upon the Nolan Principles of Conduct in Public Life. The current Members' Code of Conduct ("the Code") for Maidstone Borough Council is set out in the Constitution adopted in May 2015 (and is unchanged from the previous Code of Conduct).
- 1.2 The Localism Act 2011 requirement to adopt a Code of Conduct also applied to all the Parish Councils. Consequently, all the Parish Councils in the Maidstone area adopted their own Codes of Conduct with the majority adopting the Borough Council's Code of Conduct.
- 1.3 Under the Localism Act 2011 Maidstone Borough Council is responsible for dealing with any complaints made under the various Codes of Conduct throughout the Maidstone area.
- 1.4 The Constitution stipulates that oversight of Code of Conduct complaints would fall under the terms of reference of the Audit, Governance and Standards Committee.
- 1.5 As part of the Committee's oversight function it is agreed that the Monitoring Officer will provide reports on complaints to the Audit, Governance and Standards Committee. It should be noted that the Localism Act 2011 repealed the requirement to publish decision notices; therefore in providing the update to the Committee the names of the complainant and the Councillor complained about are both kept confidential in accordance with the Data Protection Act 1998.
- 1.6 In the previous report to this Committee it was reported that for the period 1 January 2017 to 31 May 2017 there had been one new complaint which related to three separate subject members. Unfortunately, due to an error in the recording procedure this was incorrect. The procedure has now been rectified and I can report that there were actually six complaints during the period relating to eight subject members.
- 1.7 Four of the complaints related to Parish Councillors and two to Borough Councillors. Following initial assessment none of the complaints were progressed as four failed the 'Legal Jurisdiction Test' and two failed the 'Local Assessment Criteria'.
- 1.8 Since the last report to this Committee there have been five new complaints submitted to the Monitoring Officer. Three of the complaints relate to Parish Councillors and two relate to Borough Councillors.

- 1.9 Two of the complaints received are at the initial assessment stage, two have not been progressed as they failed the Local Assessment Criteria and one was resolved by informal resolution with training being provided by the Monitoring Officer to the Parish Council.
- 1.10 The Constitution provides for a Hearings Sub-Committee to meet to consider any complaint which remains valid after investigation and consideration by the Monitoring Officer in consultation (as required) with the Independent Person. To date the Hearings Sub-Committee has not yet been required to meet.
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2. AVAILABLE OPTIONS

- 2.1 The Committee could decide that they no longer wish to receive the updates on complaints under the Code of Conduct. This is not recommended as it is part of the Committee's general oversight function.
- 2.2 That the Committee note the update on complaints received under the Members' Code of Conduct.
-

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 Option 2.2 that the Committee note the update on complaints received under the Members' Code of Conduct is recommended as it is essential that the Committee continue to oversee the complaints received.
-

4. RISK

- 4.1 This report is presented for information only and has no risk management implications.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 Members of the Audit, Governance and Standards Committee and the Independent Person in accordance with the relevant complaints procedure will be consulted with on individual complaints as and when necessary.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 As the report is for information only no further action will be taken.
-

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	High standards of conduct are essential amongst Members in delivering the Council's priorities and the Code of Conduct and complaints procedure supports this.	Interim Deputy Head of Legal Partnership
Risk Management	This report is presented for information only and has no risk management implications, however, an effective Code of Conduct and robust complaints procedure minimises the risk of Member misconduct and is part of an effective system of governance.	Interim Deputy Head of Legal Partnership
Financial	There are no direct financial implications, however, should it be necessary to appoint external Independent Investigators the cost of this will be met by the Borough Council	Interim Deputy Head of Legal Partnership
Staffing	The complaints procedure is dealt within the remit of the Monitoring Officer with input from the Legal Team as required.	Interim Deputy Head of Legal Partnership
Legal	The requirements of the Localism Act 2011 with regards to the Code of Conduct and complaints procedure are set out within the report. The reporting process ensures that the Committee continues its oversight of the Code of Conduct as required by the Constitution.	Interim Deputy Head of Legal Partnership
Privacy and Data Protection	No personal information is provided as part of the report.	Interim Deputy Head of Legal Partnership
Equalities	Any potential to disadvantage or discriminate different groups within the community should be	Interim Deputy Head of Legal

	overcome within the adopted complaints procedures.	Partnership
Crime and Disorder	None identified in the report.	Interim Deputy Head of Legal Partnership
Procurement	None identified in the report.	Interim Deputy Head of Legal Partnership

8. REPORT APPENDICES

None

9. BACKGROUND PAPERS

None

Agenda Item 13

AUDIT GOVERNANCE AND STANDARDS COMMITTEE

20 November 2017

Update on the General Data Protection Regulation

Final Decision-Maker	To be noted
Lead Head of Service	Angela Woodhouse, Head of Policy, Communications and Governance
Lead Officer and Report Author	Lead Officer: Angela Woodhouse Report Author: Anna Collier, Policy and Information Manager
Classification	Public
Wards affected	All

Executive Summary

This report provides a briefing on the General Data Protection Regulation (GDPR) that will replace the Data Protection Act (1998), coming into force on 25 May 2018. It also outlines the actions required to prepare for the changes.

This report makes the following recommendations to this Committee:

1. The update on the General Data Protection Regulation be noted.

Timetable

Meeting	Date
Audit Governance and Standards Committee	20 November 2017

Update on the General Data Protection Regulation

1. INTRODUCTION AND BACKGROUND

- 1.1 The purpose of this report is to provide a briefing on the General Data Protection Regulation (GDPR) that will replace the Data Protection Act (DPA) (1998), coming into force on the 25 May 2018.
 - 1.2 The report provides an overview of GDPR and additional or changed responsibilities from the current DPA compliance responsibilities.
 - 1.3 The report outlines the action that is required to prepare for these changes.
-

2. BRIEFING ON GDPR

- 2.1 When the GDPR takes effect on the 25 May 2018, it will replace the Data Protection Directive (Directive 95/46/EC) which regulates the processing of personal data across the EU. In the UK, the Data Protection Act (DPA) is based on the Directive; these regulations will replace the Data Protection Act (1998). The GDPR unifies, modernises and harmonises data protection rules across all member states in the EU.
- 2.2 The Government has confirmed that it will implement the GDPR, but also has the ability to apply 'flexibility' in over 50 of the provisions contained in the Articles. There is still uncertainty as to new data protection legislation in the UK (including the application of the 'flexibilities'), and the Information Commissioner's Office (ICO) has not yet completed final guidance on a number of topics. But implementation of the GDPR does not require any UK legislation.
- 2.3 Discretionary fines can be imposed along with other measures. There are two tiers of fines - €10m-€20m, equivalent to £9m - £18m, or 2%-4% of global turnover (whichever is higher). Individual governments can decide whether public authorities should be subject to fines and if so the amounts (possibly similar to existing monetary penalties).

Changes under GDPR

- 2.4 Principles are reduced from eight to six (outlined below). They are similar to those in the DPA and include a new 'Accountability' requirement:
 - Lawfulness, Fairness and transparency
 - Purpose Limitation
 - Data Minimisation
 - Accuracy
 - Storage Limitation
 - Integrity and Confidentiality
 - Accountability

- 2.5 The GDPR makes many changes to EU data protection law but it is not a complete departure from existing principles and many of the concepts will be familiar from current DPA requirements. The most significant addition is the requirement under GDPR for organisations to show how they comply with the principles – for example by documenting the decisions taken about a processing activity. The Council has undertaken a lot of work in the past few years on data protection and information management, which provides a good foundation to build from. The differences between the current Data Protection requirements and GDPR are set out at Appendix A as a high level summary table. There are new elements and significant enhancements which the Council will need to plan for to ensure compliance with the regulations.
- 2.6 When collecting personal data we currently have to give people certain information, such as our identity and how we intend to use their information. This is usually done through a privacy notice. GDPR enhances this process. For example, an explanation is required of the lawful basis for processing the data, data retention periods must be specified and individuals have a right to complain to the ICO if they think there is a problem with how their data has been handled. GDPR also requires the information to be provided in concise, easy to understand and clear language.
- 2.7 The rights individuals will enjoy under the GDPR are the same as under the DPA but have been enhanced and strengthened. The GDPR includes the following rights for individuals:
- the right to be informed;
 - the right of access;
 - the right to rectification;
 - the right to erasure;
 - the right to restrict processing;
 - the right to data portability;
 - the right to object; and
 - the right not to be subject to automated decision-making including profiling.
- 2.8 Highlighted below are key areas of change that will affect the council following GDPR.

Processing Data

- 2.9 Under GDPR the organisation will have to understand the lawful basis for processing personal data. The lawful basis for processing data must be documented in the privacy notice. In reality, a majority of the Council's processing activities are lawful but consideration will need to be given whether all personal data collected and processed is lawful.
- 2.10 Rules on consent to process information have been updated. Consent must be freely given, specific, informed and unambiguous and require a positive opt in. The Council must also consider whether consent is appropriate and an alternative would be more appropriate.

2.11 GDPR has brought in special protection for children's personal data. Online services to children that rely on consent to collect information about them may need a parent or guardian's consent in order to process their personal data lawfully. The GDPR sets the age when a child can give their own consent to this processing at 16. If a child is younger then we will need to get consent from a person holding 'parental responsibility'.

The right to erasure or the right to be forgotten

2.12 Individuals will have the right to have their data deleted if there is no lawful basis for processing their data and/or in situations when consent for processing is required.

2.13 The right is not absolute and can be refused in specific circumstances. For the Council a majority of information is collected in GDPR terms

'to comply with a legal obligation or for the performance of a public interest task or exercise of official authority'.

2.14 It is therefore essential that all services review whether all personal information collected in a process can be proved to be for that purpose.

The right to rectification

2.15 Individuals are entitled to have personal data rectified if it is incorrect. The Council must respond within one month (though this can be extended to two months if complex). If the information has been shared with a third party then this must also be declared.

Subject Access Requests

2.16 Subject Access Requests aren't new but there have been changes to the rules:

- We cannot charge for complying with a request (in a majority of cases).
- We have a month to comply, rather than the current 40 days.
- We can refuse or charge for requests that are manifestly unfounded or excessive.
- If we refuse a request, we must tell the individual why and that they have the right to complain to the supervisory authority and to a judicial remedy. We must do this without undue delay and at the latest, within one month.

2.17 Maidstone does not apply the charge so there will no impact from the charge being removed.

Data Breaches

2.18 The Council already has a responsive approach to investigating reports of data breaches. Currently it is best practice to report any breach to the ICO. GDPR makes reporting mandatory if there is a risk to the individual's rights and freedoms.

2.19 The breach should be reported in no less than 72 hours of becoming aware of it and the ICO will have the ability to issue fines for failing to notify and failing to notify in time.

Privacy by Design

2.20 The GDPR makes privacy by design mandatory. It also makes Privacy Impact Assessments, referred to as 'Data Protection Impact Assessments' or DPIAs mandatory in certain circumstances.

2.21 A DPIA is required in situations where data processing is likely to result in high risk to individuals, for example:

- where a new technology is being deployed;
- where a profiling operation is likely to significantly affect individuals;
- where there is processing on a large scale of the special categories of data;
- if a DPIA indicates that the data processing is high risk, and we cannot sufficiently address those risks, we will be required to consult the ICO to seek its opinion as to whether the processing operation complies with the GDPR.

3. Data Protection Officer

3.1 The GDPR includes provisions that promote accountability and governance. Article 24(1) places an explicit legal obligation on controllers, and for the first time processors, to ensure and be able to demonstrate that all processing is undertaken in compliance with the requirements of the GDPR. This includes for example collecting records of processing operations for organisations with 250 or more employees and ensuring data privacy impact assessments (DPIAs) are undertaken when required.

3.2 The Council is now required to create or designate an officer to be responsible for data protection and ensure compliance. GDPR sets a number of rules around this role which ensure that the Data Protection Officer (DPO) has the knowledge, support and authority to carry out their role. Details of the role are set out in Appendix B.

3.3 Although Data Protection Officers (DPOs) are not personally liable in cases of non-compliance with the GDPR and it is the organisation that is ultimately accountable and responsible, the designation of a DPO is one of several accountability measures designed to strengthen corporate self-regulation.

3.4 Where the controller or the processor is a public authority or body, a single DPO may be employed directly by a single authority or as an agent under a service contract designated as the DPO for several authorities or bodies. Precise credentials or qualifications that DPOs must have are not specified, but it does require that the:

- DPO is designated:

- on the basis of professional qualities, and in particular, expert knowledge of data protection law and practices with the ability to fulfil the tasks specified in Article 39
- Contact details of the DPO:
 - are published (so they are directly accessible to the public)
 - communicated to the regulator (as the primary contact person).

3.5 Further details of the role and tasks of the DPO can be seen at Appendix B.

3.6 Given existing responsibilities in the investigation of data breaches, management of subject access requests and being the named responsible officer for stage 2 complaints, the Head of Policy, Communications and Governance is now also the Council's Data Protection Officer. Additional training has been undertaken to ensure that the post holder is at GDPR practitioner level.

3.7 Additional support will be provided by the Policy and Information Manager and the Information and Corporate Policy Officer who are already responsible for supporting Data Protection.

4. PREPARING FOR THE GENERAL DATA PROTECTION REGULATION

4.1 The Information Commissioners Office has identified twelve steps that Councils should take to prepare for GDPR which align with the changes. The twelve steps are:

- i. Awareness – raising awareness in the organisation
- ii. Information we hold – reviewing what personal data we hold and with whom it's shared
- iii. Communicating privacy information – review privacy notices
- iv. Individual's rights – check our procedures to review individuals' rights including how personal data will be deleted
- v. Subject access requests – update processes
- vi. Lawful basis for processing data – identify the lawful basis for processing.
- vii. Consent – review consents and consider whether new consents are needed.
- viii. Children – Consider whether new processes are needed to verify ages or gain consent
- ix. Data breaches – review and update procedures
- x. Data Protection by Design and Data Impact Assessments
- xi. Data Protection Officers - appoint if needed
- xii. International – identify any data that is subject to international transfer

4.2 The action plan at Appendix C sets out the actions the Council needs to take, in order to prepare. It is organised under the above headings.

4.3 The key action that is being undertaken is a programme of information lifecycle audits. A copy of the form can be seen at Appendix D. These audits are helping the Council prepare under points 2, 3, 4, 6, 7, 8, 10 and 12 shown above. These forms and the related action plan which will

support delivery of any recommendations will help evidence our decision making, as GDPR places greater emphasis on the documentation that data controllers must keep to demonstrate their accountability.

- 4.4 The Policy and Information Team is already working closely with Tunbridge Wells Borough Council in order to share resource and knowledge. Part of this work will be sharing training sessions, guidance and policies to reduce workload. In addition a shared resource has been identified to help implement the requirements as there are elements of the same work required at both councils. This will make the most out of the resource and encourage shared learning and practice.

- 4.5 Initial basic training has already taken by members of the Policy and Information team. The Head of Policy, Communications and Governance has undertaken GDPR practitioner training and further practitioner training has commenced for the Policy and Information Manager who would deputise in the Head of Service's absence. General GDPR awareness training was arranged for the Information and Corporate Policy Officer who will be supporting the Head of Service in delivery of day to day work.

5. RISK

- 5.1 Information management has already been identified as a corporate risk for the council. The action plan at Appendix C sets out steps to mitigate risk.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 An action plan is set out at Appendix C.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The introduction of the General Data Protection Regulation will affect both Council priorities as it will impact on the management of all information collected, used and stored for all Council	Head of Policy, Communications and Governance

	activities unless legislation states otherwise	
Risk Management	Not preparing or sufficiently preparing for the changes introduced under GDPR leaves the Council open to significant risk. Should the Council not prepare for GDPR and the ICO investigates, the Council could be at risk of a fine.	Head of Policy, Communications and Governance
Financial	Employing additional support to help audit and implement changes will result in a financial cost to the Council. One-off budgetary provision will be made to meet this cost.	Head of Policy, Communications and Governance
Staffing	<p>Introducing changes under GDPR will result in significant impact to officers' time. There is a substantial impact within the Policy and Information Team, possibly the ICT team and on the digital team. There will also be impact on all service managers as all process will need to be audited and recommendations implemented</p> <p>All staff will need to be trained and briefed on the implications of GDPR and their role in compliance.</p>	Head of Policy, Communications and Governance
Legal	<p>The Council has a number of legal obligations under GDPR and these have been outlined in the report.</p> <p>MKLS will be working with officers to amend existing contracts affected by GDPR, as well as making the necessary amendments to contract templates to be used by the Council for future agreements to incorporate the changes brought in by GDPR.</p>	Team Leader (Contracts and Commissioning) MKLS

Privacy and Data Protection	The Council has a number of legal obligations under GDPR and these have been outlined in the report	Head of Policy, Communications and Governance
Equalities	Whilst auditing services there may be a need to change processes, EQIA may need to be completed at that time. Equalities data is personal data and can be sensitive personal data, audits will need to consider whether this data is required, alongside consideration as to whether collected the data will ensure that services are delivered equably.	Head of Policy, Communications and Governance
Crime and Disorder	Services operating within this area will be audited alongside other services	Head of Policy, Communications and Governance
Procurement	Services operating within this area will be audited alongside other services	Head of Policy, Communications and Governance

8. REPORT APPENDICES

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

- Appendix A – GDPR comparison with Data Protection Overview
- Appendix B: Data Protection Officer Role
- Appendix C: Action Plan and Timetable for GDPR
- Appendix D: Data Process Form

9. BACKGROUND PAPERS

None

Appendix A – GDPR and Data Protection Comparison Overview

Themes	DPA	GDPR
Rights of Data Subjects	<ul style="list-style-type: none"> • Access to personal data • Prevent processing likely to cause damage or distress • Prevent processing for direct marketing • Object to automated decision making • Have inaccurate personal data removed • Claim compensation for damages caused by a DPA breach 	<ul style="list-style-type: none"> • Data portability • Right to be forgotten • Object to processing • Right to request opt out after permission given • Must be notified of automated decision making and have the right to request “human decision making” • Continues not to apply to deceased persons
Subject Access Requests	<ul style="list-style-type: none"> • Where an individual requests access to their own information • Required ID and a written request • 40 day deadline to respond • £10 fee required 	<ul style="list-style-type: none"> • Deadline to respond 1 month • No fee required • Reasonable steps to verify identity
Data Breaches	<ul style="list-style-type: none"> • Report to Senior Responsible Information Officer (SIRO) • No obligation to automatically report to the Information Commissioner’s Office (ICO) • Maximum fine £500,000 	<ul style="list-style-type: none"> • Must be reported to ICO within 72 hours • Fines up to 2% of turnover or €10m for poor record keeping, contracting etc • Fines of up to 4% of turnover or €20m for breaches of rights or principles • New definition ‘a breach of security leading to the accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to, personal data, transmitted, stored or otherwise processed

<p>Privacy Notices and Consent</p>	<ul style="list-style-type: none"> • A privacy notice should contain: the identity of the data controller; the purpose for which you intend to process the information; any extra information you need to give individuals the context to enable you to process the information fairly • Soft opt in to data protection and use of information for specified reasons is permitted (e.g. tick this box if you don't want us to use your information) 	<ul style="list-style-type: none"> • Show the legal basis for processing information • Data must be trackable • No more 'soft opt ins' • Controller must prove consent
<p>Privacy Impact Assessments</p>	<ul style="list-style-type: none"> • Not Mandatory • Recommended when processing large amounts of data 	<ul style="list-style-type: none"> • Mandatory for all business cases • Privacy by design
<p>Other Considerations</p>		<ul style="list-style-type: none"> • DP Officer's mandatory role in an organisation processing data • Consent for use of Children's Data • Child likely to be defined as anyone under 13 years

Appendix B - Position of the DPO

Article 38 sets the framework within which DPOs are expected to operate, including the obligations on controllers and processors to ensure that they have the resources to operate effectively and the degree of autonomy and independence the DPO is expected to have in performing their tasks.

Specifically, these requirements are that the DPO must:

- Be involved, properly and in a timely manner, in all issues which relate to the protection of personal data
- Be allocated adequate resources to perform their tasks
- Have access to personal data and processing operations
- Be able and supported in maintaining his or her expert knowledge
- Not be given instructions regarding the exercise of those tasks
- Not be dismissed or penalised for performing the tasks of the DPO
- Report to the highest management level
- Be contactable by data subjects on all issues related to processing of their personal data and to the exercise of their rights
- Be bound by secrecy or confidentiality concerning the performance of his or her tasks (but able to seek advice from/engage with ICO)
- If member of staff, be assigned other tasks and duties only if these do not give rise to a conflict of interests

The Guidance issued by the Article 29 WP seeks to provide more detail about these requirements and their parameters and to provide advice on practical implementation:

Instructions and 'performing duties and tasks in an independent manner'

- DPO not to be instructed on how to deal with a matter (for example, what result should be achieved, how to investigate a complaint or whether to consult the supervisory authority)
- the autonomy and decision-making powers of DPOs do not extend beyond tasks pursuant to Article 39
- DPO should be able to report and share advice and recommendations or dissenting opinion with "highest management level and to those making the decisions" if these are incompatible with the GDPR and the DPO's advice
- in terms of direct reporting at Board level, an example given is for the DPO to present an Annual Report on their activities

'Resources', 'Support' for DPO function and involvement in 'timely manner'

- active support of the DPO's function by senior management (e.g. at Board level)
- regular participation by the DPO in senior/middle management meetings and at meetings where decisions with data protection implications are to be made

- early communication to ensure DPO is able to provide advice on timely basis
- ensuring appropriate weight given to opinion of the DPO and where not followed, reasons to be documented
- prompt consultation with the DPO:
 - once a data breach or another incident has occurred
 - new or changed processes or systems are conceived so the DPO can advise on and decide if a DPIA is necessary
- sufficient time for DPOs to fulfil their tasks (especially where other tasks may be assigned creating competing priorities that might result in DPO's duties being neglected)
- adequate support in terms of financial resources, infrastructure (premises, facilities, equipment) and staff where appropriate
- official communication of the designation of the DPO to all staff (to ensure role is known and understood)
- access to other services within the organisation so that DPOs can receive essential support, input or information from those other services (e.g. HR, IT, legal, security etc.)
- continuous training and networking to ensure data protection knowledge remains up to date

No 'dismissal or penalty' for performing DPO tasks and 'conflict of interest'

- protection from dismissal or penalty (intended to strengthen autonomy and independence of DPOs in performing their data protection tasks)
- penalties (direct or indirect) are only prohibited under the GDPR if imposed as a result of the DPO carrying out his or her duties as a DPO
- as would be the case for any employee or contractor, a DPO may still be dismissed legitimately for reasons other than for performing DPO tasks (for instance in case of theft, physical, psychological or sexual harassment or similar gross misconduct)
- DPOs may 'fulfil other tasks and duties' only if these do not give rise to conflicts of interests (e.g. DPO must not determine the purposes and the means of the processing of personal data)
- example of internal DPO conflict:
 - also holding senior management positions (such as chief executive, chief operating, chief financial, chief medical officer, head of marketing department, head of Human Resources or head of IT departments) or roles lower in the organisational structure if such positions or roles lead to the determination of purposes and means of processing (guidance gives good practice advice on how to raise awareness of issue)
- example of external DPO conflict:
 - o representation before Court in cases involving data protection issues

Specified Tasks of the DPO

The minimum tasks of the DPO specified in Article 39 are:

- informing and advising the controller or processor and its employees of their obligations to comply with the GDPR and other data protection laws
- monitoring compliance with the GDPR and other data protection laws, including managing internal data protection activities
- training staff
- conducting internal audits
- advising with regard to data protection impact assessments when required under Article 35 (e.g. evaluating whether residual risk is acceptable or meets the threshold for 'prior consultation' with the ICO)
- acting as contact point for the supervisory authority on issues relating to processing, including prior consultation, and to consult, where appropriate, with regard to any other matter (Article 39(1)(e))
- handling inquiries from data subjects on issues relating to data protection practices, subject access, withdrawal of consent, objections to and restrictions on processing and related rights.

The Article 29 WP guidance sets out when advice must be sought from the DPO in relation to undertaking DPIAs, the need to adopt a risk-based approach to prioritising data protection activities and, the types of other tasks that may be assigned to the DPO (such as compiling records of processing operations for the organisation and monitoring ongoing compliance). These are summarised below.

Data Protection Impact Assessments:

- whether or not to carry out a DPIA
- what methodology to follow when carrying out a DPIA
- whether to carry out the DPIA in-house or whether to outsource it
- what safeguards (including technical and organisational measures) to apply to mitigate any risks to the rights and interests of the data subjects
- whether or not the data protection impact assessment has been correctly carried out and the processing can go ahead and the identified safeguards in place or, if prior consultation with the ICO is required
- Risk-based approach to prioritisation:
- DPO to prioritise activities and focus of effort on issues that present higher data protection risks.

Record keeping & monitoring compliance:

- support record keeping obligation of the organisation by:
 - identifying, collecting and recording information about the organisation's processing activities
 - creating inventories and holding a register of processing operations supplied by service areas for evidential accountability purposes (and for use as tool in performance monitoring and reporting)
 - analysing and checking the compliance of processing activities, and
- informing, advising and issuing recommendations to the controller or the processor (with reasons recorded by the organisation if DPO advice is not pursued)

Appendix C - Action Plan

Action	GDPR area	Start Date	End Date	Responsible
Identify High Priority Services	All	Aug-17	Aug-17	Anna Collier
Review resources to implement GDPR changes	All	Aug-17	Aug-17	Anna Collier/Angela Woodhouse
Identify Training and other support resources	All	Aug-17	Sep-17	Anna Collier/Angela Woodhouse
Undertake Information lifecycle audits with all services reviewing all processes. Looking at: Collection, processing, sharing, storage, security, retention and disposal - this will	All	Oct-17	Feb-18	Anna Collier
Implement action plans from information lifecycle audits	All	Nov-17	May-18	Alex Munden
Review Retention Schedule	Individual's Rights	Aug-17	Feb-18	Anna Collier/Alex Munden/Legal
Ensure every Service has retention periods documented	Individual's Rights	Aug-17	Feb-18	Service Managers Monitored Alex Munden
Design Robust Lifecycle Audit Form that clearly identifies the lawful basis for processing	Lawful Basis for processing data	Aug-17	Aug-17	Anna Collier
Ensure every process documents the lawful basis for processing	Lawful Basis for processing data	Oct-17	Feb-18	Service Managers/Anna Collier/Angela Woodhouse
Lifecycle Audits	Children	Oct-17	Feb-18	Anna Collier
Lifecycle Audits	International	Oct-17	Jan-18	Anna Collier
Review and update Data Protection Guidance and Need to Know fact sheets for GDPR	Awareness	Oct-17	Feb-18	Alex Munden
Briefing for CLT	All	Sep-17	Apr-18	Angela Woodhouse and Anna Collier
Training for Revs and Bens	All principles	Sep-17	Sep-17	T Wells
Review Data Retention Scheme	Information We Hold	Oct-17	Feb-18	Anna Collier
Update any processes and procedures as per recommendations from lifecycle audits (included and monitored in audit action plan)	Individual's Rights	Sep-17	Apr-18	Delivered by Service Managers Monitored by Alex Munden
Work with the ICT team to ensure that any digital barriers to the accessing of information are identified and explored	Individual's Rights	Sep-17	Apr-18	Anna Collier/Chriswoodward
Design guide to consents (internal and external document)	Consent/Awareness	Sep-17	Oct-17	Alex Munden
Design and Implement DPIA process	Data Protection by Design and Data Protection Impact Assessments	Sep-17	Oct-17	Anna Collier
Create DPIA guidance and DPIA Need to Know	Data Protection by Design and Data Protection Impact Assessments	Sep-17	Oct-17	Alex Munden
Report to CLT with recommendations for the appointment of the DPO	Data Protection Officer (DPO)	Sep-17	Sep-17	Anna Collier/Angela Woodhouse

Training for high risk service areas - those who process large volumes of personal and/or sensitive data	All principles	Oct-17	Feb-18	Angela Woodhouse
Briefing for Unit Managers and Staff Forum	All principles	Oct-17	Apr-18	Angela Woodhouse
Update Information sharing checklist and log	Information We Hold	Oct-17	Oct-17	Alex Munden
Update consents (included and monitored in audit action plans and website reviewed and updated)	Consent	Oct-17	May-18	Delivered by Service Managers Monitored by Alex Munden Digital Support Paul O'Grady
Briefing for WLT	All principles	Oct-17	Apr-18	Angela Woodhouse
Design standard template for presenting Privacy Notices. These should be clear concise and easy to understand	Communicating Privacy Information	Nov-17	Jan-18	Helen Bell/ Anna Collier
Review and update guide to privacy notices (internal and external document)	Communicating Privacy Information/Awareness	Nov-17	Jan-18	Alex Munden
Update Privacy Notices (including a review of the website and update) (included monitored in audit action plans)	Communicating Privacy Information	Nov-17	Apr-18	Paul O'Grady
Review and Investigate Data Portability Requirements	Data Portability	Nov-17	Dec-17	Anna Collier
Review and update information Asset Register	Individual's Rights	Dec-17	Jan-18	Service Managers/Alex Munden/Anna Collier
Review procedures for subject access requests process	Subject Access	Mar-18	Mar-18	Alex Munden
Update SAR request form and SAR checklist	Subject Access	Mar-18	Mar-18	Alex Munden
Review and update SAR guidance and SAR 'Need to know'	Subject Access	Mar-18	Mar-18	Alex Munden
Review Data Breach Process and update procedures	Data Breaches	Apr-18	Apr-18	Alex Munden
Update Data Breach guidance	Data Breaches	Apr-18	Apr-18	Alex Munden
Create Need to Know- Data Breaches	Data Breaches	Apr-18	Apr-18	Alex Munden
Update Website with details of DPO	Data Protection Officer (DPO)	May-18	May-18	Anna Collier
Produce GDPR Guidance/Training for Members	Awareness	Jan-18	Jan-18	Sam Bailey/Alex Munden

Appendix D - Data Process Record
Admin
Service: Process: Purpose of data collection/processing:
Data Collection
What information are we collecting? Does any of this data relate to children? Volume of customer data: How are we collecting the information? What is the frequency of collection? What type of personal data is it? (Personal/Sensitive) What is the approximate split of data types?
Storing, Accessing, and Deleting
Where is the information stored? Who has access to the information? How easy is it to access the information? What security measures are in place to protect the information/restrict access? What is the process of accessing the information? How long show we be holding the data for [Retention]? What is the current process for deletion?
Data Sharing
Who is the likely recipient of the data [Who do we share it with]? What are the processes for sharing data? Do we publish the data? Do we collect data from elsewhere (internal/external)? Do other departments collect data that would enhance this process? Do we transfer the data to a third country?
GDPR Checks – Admin review by Auditor
Can we deliver the service without the data? Is the request for data lawful under GDPR?

<p>Is the data used for automated decision making?</p> <p>Do you Undertake any profiling?</p> <p>Is consent required?</p> <p>Does a private notice exist? If no, is one required?</p>
Date:
Auditor:
Auditee:

Audit and Action plan agreed	Name and Signature	Date
Auditor		
Service Manager		
Data Protection Officer		

Improvement Action Plan

Process	Audit Area	Area of improvement	Activities	Responsible officer	Deadline

Agenda Item 14

Audit, Governance & Standards 20 November 2017 Committee

Interim Audit & Assurance Report

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service/Lead Director	Mark Green, Director of Finance & Business Improvement
Lead Officer and Report Author	Rich Clarke, Head of Audit Partnership
Classification	Public
Wards affected	All

Executive Summary

The report provides to Members an update on progress so far towards completing the 2017/18 Internal Audit & Assurance Plan. It also provides the update information needed by Audit Standards including an assessment of available audit time, results of audit work and commentary on performance of the audit service.

Our results so far in 2017/18 have yielded positive assurance ratings and there are no matters of broader concern we wish to bring to Members' attention.

This report makes the following recommendations to this Committee:

1. To note progress against the 2017/18 Internal Audit & Assurance Plan and findings so far.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	20 November 2017

Interim Audit & Assurance Report

1. INTRODUCTION AND BACKGROUND

1.1 The report provides an update for Members on progress against the 2017/18 Internal Audit & Assurance plan approved by this Committee earlier this year. The report also meets our duties under Public Sector Internal Audit Standard 2060 to report to Members on:

- Our audit charter,
- The independence of internal audit,
- Audit plan changes and progress against the plan,
- Resource needs of the audit service,
- Results of audit work so far,
- Affirming conformance with the Standards and Code of Ethics, and
- Details of risks taken by management that, in the Head of Audit Partnership's judgement, may be unacceptable to the authority.

1.2 We have made good progress through the plan so far, although highlight to Members a continuing absence in the team which may result in a small under-delivery at year end. Nevertheless, by continuing to adjust our plans according to the Council's risk profile, we remain confident of delivering a robust audit opinion by year end.

1.3 So far in 2017/18 we have delivered positive assurance ratings on all reviews completed. Further we report improving levels of delivery for officers acting to addressing audit recommendations.

1.4 We also report our continuing conformance with the Standards (including independence) and the Code of Ethics. We also show our continued strong results on performance measures and the recent award of *Swale Stars Team of The Year* received by Mid Kent Audit.

2. AVAILABLE OPTIONS

2.1 We do not seek specific action or recommendation from Members in response to this report.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 To keep conformance with the Standards we must report progress periodically to Members. This report fulfils that duty and provides the opportunity for Members to review, comment on and question the progress we have made and the results we have reached.

4. RISK

- 4.1 We present this report for information only so it has no direct risk management implications.
- 4.2 Audit Standard 2060 demands we report to Members any risks accepted by management that in our view may be unacceptable to the organisation. For example, this might include audit recommendations that management refuse to address.
- 4.3 There are no risks we have identified in our work that we believe management have unreasonably accepted.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 We discuss results of audit work with responsible officers within the authority before issuing as final. We remain pleased to record to Members continuing strong levels of co-operation from officers who have accepted all recommendations made so far in 2017/18.
- 5.2 We discussed the report in full with the Director of Finance & Business Improvement at the end of October. We have reflected his comments in the attached report.
- 5.3 The report builds on Committee comments from previous similar reports at equivalent points in earlier years.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 We do not seek a decision from Members from this report.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not recommend any specific Member action in this report. However, keeping effective internal audit contributes to good governance of the authority and its ability to achieve corporate priorities.	Rich Clarke Head of Audit Partnership 8 Nov 2017
Risk Management	See section 4.	

Issue	Implications	Sign-off
Financial	<p>Continuing the audit and assurance plan is within already approved budgetary headings and so needs no new funding for implementation.</p> <p>We will seek agreement for any new funding to deal with the resourcing matters mentioned in the report through the Council's standard budgetary processes.</p>	
Staffing	<p>We will continue completing the audit and assurance plan with our current staffing.</p> <p>We will seek agreement for any changes to staffing resulting from the resourcing matters mentioned in the report through the Council's standard HR processes.</p>	<p>Rich Clarke Head of Audit Partnership 8 Nov 2017</p>
Legal	<p>Reporting to Members in this way contributes to fulfilling the Council's duties under the Local Audit & Accountability Act 2014.</p>	<p>Interim Deputy Head of Legal Partnership</p>
Privacy and Data Protection	<p>The audit service collects no data directly from the public. Any data collected during reviews is held in line with the Council's applicable policies.</p>	<p>Interim Deputy Head of Legal Partnership</p>
Equalities	<p>The report does not propose a change in service therefore will not need an equalities impact assessment</p>	<p>[Policy & Information Manager]</p>
Crime and Disorder	<p>The report makes no recommendations that impact crime and disorder.</p>	<p>Rich Clarke Head of Audit Partnership 8 Nov 2017</p>
Procurement	<p>The report contains no recommendations for procurement.</p> <p>Should we continue with seeking new Audit Management Software as referred in the report we will complete that exercise in line with applicable Financial Procedure Rules.</p>	<p>Rich Clarke Head of Audit Partnership 8 Nov 2017</p>

8. REPORT APPENDICES

- Appendix 1: Interim Internal Audit & Assurance Report 2017/18

9. BACKGROUND PAPERS

None applicable.

APPENDIX 1

INTERIM INTERNAL AUDIT & ASSURANCE REPORT

Interim Internal Audit & Assurance Report



November 2017

Maidstone Borough Council

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Introduction

1. The Institute of Internal Audit gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
2. The mission and its associated [code of ethics](#) and [Standards](#) govern over 200,000 professionals in businesses and organisations around the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations state services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more demanding version of the global standards. Those Standards set demands for our reporting:

2060 Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the *Code of Ethics* and the *Standards*. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.

Interpretation:

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- The audit charter.
- Independence of the internal audit activity.
- The audit plan and progress against the plan.
- Resource requirements.
- Results of audit activities.
- Conformance with the *Code of Ethics* and the *Standards*, and action plans to address any significant conformance issues.
- Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organisation.

Audit Charter

3. This Committee approved our *Audit Charter* in March 2016. The Charter remains effective through the updated standards in April 2017. We will consider whether to recommend updates alongside our 2018/19 audit plan.

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Independence of internal audit

4. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work based on our collaboration agreement.
5. Within Maidstone BC during 2017/18 we have continued to enjoy complete and unfettered access to officers and records to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
6. I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

Management response to risk

7. We include the results of our work in the year so far later in this report. In our work we often raise recommendations for management action. During the year so far management have agreed to act on all recommendations we have raised. We report on progress towards implementation in the section titled *Recommendation Follow Up Results*.
8. There are no risks we have identified in our work that we believe management have unreasonably accepted.

Resource Requirements

9. We reported in our plan presented to this Committee in March 2017 an assessment on the resources available to the audit partnership for completing work at the Council. That review decided:

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.

10. Since that review we have seen various changes to our current and projected position. First we report with pleasure that one of our audit trainees, Ben Davis, has accepted an offer to continue as a permanent auditor on completing his qualification in 2018. When we began the training scheme in 2014 it was with the hope we would eventually develop our own qualified people who could continue contributing to our success. We take great pride in beginning to realise that hope. This move will increase the number of audit days available to the partnership.

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11. However, we also continue dealing with long-term sickness absence of a senior member of the audit team. While in 2016/17 we were largely able to compensate for the absence through use of contractors and increased general productivity we are less able to cover the gap in 2017/18. In the spirit of greater resilience from working in partnership, no single authority will see a material loss but we do expect each will see some fall in available days.
12. Finally, we will look later in the year at our audit software. Originally through the efforts of the then Ashford team, Mid Kent have pioneered the use of “e-audit”. We were one of the first local authority teams to adopt electronic working when we began using Teammate software in 2001. Since then, though obviously upgraded, we have stuck with Teammate.
13. However, the increasing need to examine our costs carefully – the licence fees are by far our largest non-staff expense – have led us back to market. We will seek to est the market, possibly jointly with Kent County Council, early in the New Year. This exercise and associated training if we buy new software will impact on the 2017/18 audit plan. However, we are confident that we will realise efficiencies in both cost and auditor time from 2018/19 onwards.
14. The result of these changes is a good chance we will not deliver in full the number of audit days set out in the 2017/18 plan. However, by continuing to focus on productivity and risk, we are confident that we will be in a position to deliver a robust overall opinion at year end.

Audit Plan Progress

15. This Committee approved our *Annual Audit & Assurance Plan 2017/18* in March 2017. The plan set out an intended number of days devoted to each of the various tasks. We began work on the plan during May 2017 and expect completing enough to form our *Annual Opinion* by June 2018.
16. The table below shows progress in total number of days delivered against the plan (figures are up to end of October 2017, about 42% through the audit year).

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Category	2017/18 Plan Days	Outturn at Interim	Days Remaining
2016/17 Assurance Projects	0	67	N/A
2017/18 Assurance Projects	320	97	223
Risk Management	40	35	5
Counter Fraud Support	50	15	35
Member Support	20	10	10
Recommendation Follow-Up	40	24	16
Audit Planning	10	4	6
Contingency and Consultancy	50	46	4
Totals (17/18 Work Only)	530	231	299

17. Based on resources available to the partnership for the rest of the year we forecast delivery of around 483 audit days. This is 91% of planned days.
18. We detail the specifics, and results, of this progress further within this report.

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Results of Audit Work

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

Completed Assurance Projects

	Title	Plan Days	17/18 Days	Report Issue	Assurance Rating	Notes
2016/17 Assurance Projects Completed After 1 April 2017						
	Park & Ride	15	21	Apr-17	Weak	Reported to Members July 2017
	Residents' Parking	8*	7*	May-17	Sound	Reported to Members July 2017
	Performance Management	10	16	May-17	Weak	Reported to Members July 2017
	Freedom of Information	15	10	May-17	Sound	Reported to Members July 2017
I	Payroll	5*	6*	Jun-17	Strong	
II	Crematorium	15	15	Jun-17	Sound	
III	ICT Controls and Access	8*	5*	Jun-17	Sound	
IV	General Ledger	15	17	Jul-17	Sound	
V	Corporate Governance: Transparency Review	5*	5*	Jul-17	N/A	
VI	Public Health	15	13	Aug-17	Sound	
VII	Accounts Payable	10	13	Aug-17	Sound	
Planned 2017/18 Assurance Projects Completed so far						
VIII	Business Rates	8*	8*	Oct-17	Strong	
IX	IT Disaster Recovery	5*	5*	Oct-17	Sound	
X	Debt Recovery Service	5*	5*	Oct-17	Strong	

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Title	Plan Days	17/18 Days	Report Issue	Assurance Rating	Notes
Assurance Projects Added to the 2017/18 Plan and Completed					
Mid Kent Audit Mid Term Review	n/a	4*	Aug-17	N/A	See "Standards Compliance" section

Assurance Projects Awaiting Completion

Title	Plan Days	Days So Far	Expected Report Issue	Notes / Stage
Planned 2017/18 Assurance Projects In Progress				
Land Charges	5*	8*	Nov-17	Draft report
Procurement	15	16	Nov-17	Draft report
Payroll	6*	10*	Nov-17	Fieldwork
Home Assistance Grants	12	7	Nov-17	Fieldwork
Subsidiary Company Governance	12	3	Nov-17	Fieldwork
Business Terrace	15	9	Dec-17	Fieldwork
Emergency Planning	15	3	Dec-17	Planning
Accounts Receivable	10	2	Jan-18	Planning
Data Protection	15	2	Feb-18	Planning
Legal Services	5*	1*	Mar-18	Planning
Contract Management	15	1	Mar-18	Planning
Promotion & Marketing	12	1	Mar-18	Planning
Insurance	12	1	Mar-18	Planning
Building Control	15	1	Mar-18	Planning

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	Title	Plan Days	Days So Far	Expected Report Issue	Notes / Stage
Planned 2017/18 Assurance Projects Yet To Begin					
	Financial Planning	7*	0	Q3	
	Complaints	12	0	Q4	
	Homelessness	15	0	Q4	
	Animal Welfare Control	12	0	Q4	
	Street Scene Provision	12	0	Q4	
	Member Training & Induction	12	0	Q4	
	Food Safety	5*	0	Q4	
	HR Policy Compliance	5*	0	Q4	
	Information Security	5*	0	Q4	
	Parking Income	6*	0	Q4	
	Cemetery	12	0	Q4+	
	Corporate Governance	6*	0	Q4+	
	Workforce planning	15	0	Q4+	

45

We will continue to keep these projects under review in the light of our available resources and the changing risk position at the authority.

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Audit Project Summary Results

I: Payroll (June 2017)

20. Our opinion based on our audit work is that there are **Strong** controls in both design and operation over the Payroll process.
21. Our work confirmed the Payroll process is materially unchanged from our last review in May 2016. Controls are well designed and the payroll continues to be managed effectively across the shared service.
22. Our testing confirmed that payroll payments made are accurate, authorised and processed in accordance with agreed procedures.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	0	1	2

23. The service has now acted to implement our recommendation, so this report is closed.

II: Crematorium (June 2017)

24. Our opinion based on our audit work is that the Crematorium has **Sound** controls in place to manage its risks and support achievement of its objectives.
25. The service employs effective procedures around the cremations process which we found fully meet the requirements of the Crematorium Regulations. The service is performing above expectation with a favourable trend from increasing cremation numbers and revenue, supported by detailed management information.
26. However, we identified some improvements the service should make to improve aspects of its financial procedures. While these are generally sound, increased reconciliations between supporting systems will reduce the risk of error in accounting.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	1	2	0

27. None of the recommendations raised have yet fallen due for implementation.

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III: ICT Controls & Access (June 2017)

28. Our opinion based on our audit work is the ICT shared service has **Sound** controls in place to manage its risks and support achievement of its objectives.
29. We identified the service annually receives external assurance around its access controls and takes actions as a result to improve. The overall design and operation of controls is consistent with Government standards sufficient to permit access to the Public Sector Network (PSN Compliance).
30. However the service needs to update procedures to improve controls around user access when an officer leaves the partnership that are currently inconsistently applied. Our testing identified individuals who had accessed the Council's system after leaving employment and a number of other accounts that closed only when we identified them in our sample. The service also needs to introduce controls to ensure the prompt closure of access to applications users no longer need when they change job roles.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	1	0	3	0

31. The service has since acted to implement all recommendations. This report is now closed.

IV: General Ledger: Journals and Feeder Systems (July 2017)

32. Our opinion based on our audit work is that there are **Sound** controls in place to manage the Council's General Ledger processes and its risks, to support achievement of its objectives.
33. Our system mapping and testing established that the General Ledger Feeder Systems and Journal processes are adequately designed and effectively operated. The Council properly controls inputs from feeder systems, manages risk appropriately and maintains data integrity. The service holds well documented procedures and responsibilities; however, guidance notes are required for two elements of the process.
34. Journal transfers between financial codes within the General Ledger are correct. Retrospective checking is prioritised to the highest value transactions to reflect the risk appetite of the Finance Service, but this is not accurately reflected in journal logs.

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Controls should be improved by formalising the journal checking protocol and maintaining journal evidence.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	1	3	1

35. Most recommendations are now complete. For one low priority recommendation related to procedure notes the service asked for a deferral into the new-year to allow for incorporation into year-end processes. We are satisfied the action is relatively minor and so the delay poses no material risk.

V: Governance Review (July 2017)

36. The purpose of this review was to focus on the transparency arrangements in place at Ashford, Maidstone, Swale and Tunbridge Wells Borough Council, against the

Authority	Notable practice	Areas for improvement
Ashford	<ul style="list-style-type: none"> - Compilation of Annual Performance Report and Governance Statement - Ability to download & view individual elements of the constitution - Clear and well understood reporting cycle to Management and Members 	<ul style="list-style-type: none"> - Completeness of contract register information and garage data - Some information out of date – in particular social housing assets
Maidstone	<ul style="list-style-type: none"> - Centralised approach to consultations and analysis of results 	<ul style="list-style-type: none"> - Inconsistent monitoring of transparency compliance - Some information incomplete or missing
Swale	<ul style="list-style-type: none"> - Good knowledge and monitoring of transparency requirements - Central transparency webpage - Benchmarking of performance data - Annual Governance Statement and Annual Performance Report 	<ul style="list-style-type: none"> - Consultation - Publication of tender opportunities over £5k and the contracts register - Publication of local authority land information, parking spaces, staffing and Trade Union
Tunbridge Wells	<ul style="list-style-type: none"> - Consultation framework 	<ul style="list-style-type: none"> - Co-ordination and monitoring of transparency obligations - No central transparency webpage

requirements set out in Principle G of the [Good Governance Framework](#) (the Framework) and the [Local Government Transparency Code 2015](#) (the Code).

37. Our review has confirmed that all 4 Councils are fulfilling all transparency requirements. However, we have identified some areas where further consideration is needed to ensure full compliance with the Framework and Code.
38. The following table summarises some of the good practice and areas for improvement identified during the audit.

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39. The table below summarises the transparency requirements considered during the audit and our assessment for each element. An assessment key and a summary of the key findings are also provided below:

Good Governance Framework	Ashford	Maidstone	Swale	Tunbridge Wells
Officers' awareness of transparency requirements	COMPLIANT	COMPLIANT	COMPLIANT	PARTIAL
Monitoring compliance	COMPLIANT	PARTIAL	COMPLIANT	NOT COMPLIANT
Accessibility of Council information	COMPLIANT	COMPLIANT	COMPLIANT	COMPLIANT
Service delivery	COMPLIANT	COMPLIANT	PARTIAL	COMPLIANT
Policy and strategy development	COMPLIANT	COMPLIANT	PARTIAL	COMPLIANT
Decision making	COMPLIANT	COMPLIANT	COMPLIANT	COMPLIANT
Reporting	COMPLIANT	COMPLIANT	COMPLIANT	COMPLIANT
Annual Performance Reporting	COMPLIANT	COMPLIANT	COMPLIANT	PARTIAL
Financial statements	COMPLIANT	COMPLIANT	COMPLIANT	COMPLIANT
Conclusion	COMPLIANT	PART COMPLIANT	PART COMPLIANT	IMPROVEMENT NEEDED

VI: Public Health (August 2017)

40. Our opinion based on our audit work is that Public Health has **Sound** controls in place to manage its risks and support achievement of its objectives.
41. Public Health is delivered through the use of service level agreements (SLA) between Kent County Council (KCC) and Maidstone Borough Council (the Council). The Council uses sub-contractors to deliver the individual schemes and initiatives within the public health programme. KCC, who provide the grant to fund Public Health, is currently reviewing the future direction and operation of the service; this has led to the short term extension of the existing arrangements for the last two years. This creates a degree of uncertainty over the delivery of public health until such time that a final decision is made.
42. Despite the uncertainty over the future of the Public Health programme, the Council continues to provide effective oversight of individual schemes and projects delivered through regular monitoring and reporting arrangements. Our testing confirms that the programmes are delivered in accordance with the SLAs.

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43. We have however found that due to changes in roles and responsibilities there is a lack of formal internal budget monitoring over the use of the Public Health grant.
44. While reporting is possible, the current arrangements need to be improved in order to provide a clearer understanding of spend throughout the year.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	1	4	1

45. The recommendations from this review have not yet fallen due for action.

VII: Accounts Payable (August 2017)

46. Our opinion based on our audit work is that the Accounts Payable system has **SOUND** controls in place to process and pay invoices.
47. Our testing confirmed that the Council raises purchase orders in accordance with agreed procedures and that all payments are appropriately authorised prior to payment.
48. We identified a number of deficiencies in the design and operation of controls with new supplier information not being checked and validated prior to being set up on the finance system. We note that the Council remains vigilant to check changes to standing supplier data (such as bank details) in order to prevent fraudulent changes. However, without initial checks on the validity of new supplier information there is a risk that incorrect or false supplier data is entered into the system.
49. Our testing found appropriate separation of duties between departments raising orders and the payment of invoices by the Finance Team, but the current responsibilities and processes over the payment run, mean that an officer (within finance) could set up a supplier and make a payment without the details being checked.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	3	1	0

50. The recommendations from this review have not yet fallen due for action.

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VIII: Business Rates – Valuations, Liability, Billing and Write Offs (October 2017)

51. Our opinion based on our audit work is that the Mid Kent Revenues and Benefits has **Strong** controls in place to ensure that Business Rates (valuation, liability, billing and write offs) are effectively administrated.
52. Our review found only minor changes to the Business Rates system since we reviewed it in June 2015. These changes have not affected the overall effective design and operation of the system, and our testing confirms that Business Rates process is working effectively.
53. From our testing, we are able to confirm that the Mid Kent Revenue and Benefits section has well established procedures in place to ensure that accurate valuation, liability and billing records are being maintained.
54. Similarly, our testing of write offs confirmed that there are established procedures for the writing off of irrecoverable debts, in accordance with each Council’s Financial Procedure Rules.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
# of recs	0	0	1	0

55. The recommendation from this review has not yet fallen due for action.

IX: IT Disaster Recovery (October 2017)

56. Our opinion based on our audit work is that the ICT shared service has **Sound** controls in place to manage its Disaster Recovery (DR) arrangements.
57. The service has well designed arrangements to allow effective response to a disaster with prompt service restoration. Documentation is clear with well-considered roles plus comprehensive backup arrangements, secure communication and regular testing. However, we found some minor instances of documentation falling behind developments in wider business continuity that varied between the partner authorities. The service holds significant experience and expertise including offering advice to other authorities, but we identified opportunities to better document and manage that resource.

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Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	2	2	0

58. Mid Kent ICT has acted swiftly to address the recommendations, which are all due for action before the end of 2017. We will follow up on those actions early in 2018.

X: Debt Recovery Service (October 2017)

59. Our opinion based on our audit work is that the Debt Recovery Service has **STRONG** controls in place over the administration and management of enforcement cases and receipting and banking of enforcement income.
60. We found that there are sufficient procedures in place for the administration and management of enforcement cases. Our testing confirmed that enforcement action is taken in accordance with agreed procedures and fees and charges are applied in accordance with regulations. However, we identified a potential improvement in how data is transferred and stored between the partner authorities and the service.
61. Our testing established that financial controls, including receipting, banking and reconciliations, are operating effectively and as designed, and the partner authorities are accurately and promptly paid. However, we identified a potential risk in the process when updating enforcement cases with the payments received due to manual inputting of income received.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	0	0	2

62. We do not review follow up actions on advisory recommendations and so this report is closed.

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Recommendation Follow Up Results

63. Our approach to recommendations is that we follow up each issue as it falls due in line with the action plan agreed with management when we finish our reporting. We report progress on implementation to Corporate Leadership Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after action on key recommendations).
64. In total, we summarise in the table below the current position on following up agreed recommendations:

Project	Total	High Priority ¹	Medium Priority	Low Priority
Recommendations brought forward into 2017/18	26	7	9	10
New recommendations agreed in 2017/18	44	3	16	25
Total Recommendations Agreed	70	10	25	35
Fulfilled by 30 September 2017	37	6	9	22
Recommendations cfwd past 30 September	33	4	16	13
Not Yet Due	22	1	11	10
Delayed Implementation but no extra risk	11	3	5	3
Delayed Implementation with risk exposure	0	0	0	0

65. We provide the definitions of our priority ratings in Annex 2. In the table below we summarise progress against all reports with recommendations that fell due during 2017/18. The table excludes reports that raised no risk-rated recommendations for follow-up:

¹ Includes one Critical priority recommendation (now implemented)

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Project	Report Issue Date & Rating	Recs Agreed	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Safeguarding	Oct-15 (Weak)	12	0	0	0	12	Nov-17
Procurement	Feb-16 (Sound)	2	0	1	0	1	
Health & Safety	Nov-16 (Weak)	14	0	0	0	14	Oct-17
Hazlitt	Nov-16 (Weak)	15	0	1	0	14	
Housing Benefits	Nov-16 (Sound)	4	0	0	0	4	Oct-17
Facilities Management	Dec-16 (Sound)	7	0	0	0	7	Oct-17
Elections & Registration	Jan-17 (Sound)	3	0	1	0	2	
Public Conveniences	Jan-17 (Sound)	4	0	1	0	3	
Discretionary Housing Payments	Jan-17 (Sound)	5	0	0	0	5	Aug-17
Park & Ride	Apr-17 (Weak)	7	0	1	0	6	
Performance Management	May-17 (Weak)	9	0	3	2	4	
Freedom of Information	May-17 (Sound)	3	0	1	2	0	

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Project	Report Issue Date & Rating	Recs Agreed	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Residents Parking	May-17 (Sound)	8	0	1	3	4	
Crematorium	Jun-17 (Sound)	3	0	0	3	0	
ICT Controls & Access	June-17 (Sound)	4	0	0	0	4	Oct-17
General Ledger	Jul-17 (Sound)	4	0	1	0	3	
Accounts Payable	Aug-17 (Sound)	3	0	0	3	0	
Public Health	Aug-17 (Sound)	5	0	0	5	0	
Business Rates	Oct-17 (Strong)	1	0	0	1	0	
IT Disaster Recovery	Oct-17 (Sound)	4	0	0	4	0	

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Other Audit Activity Results

Risk Management Update

66. Risk management is how the Council identifies, quantifies and manages the risks it faces as it seeks to achieve objectives.
67. The Council set up a new risk management approach in July 2015. Since then we have been providing risk management support to help ensure the success of the approach. As part of setting up the risk approach, we have over the course of the last year discussed with Members and Corporate Leadership Team defining the Council's risk appetite. Members adopted a risk appetite statement in October 2017.
68. We report the Council's risks twice a year to Policy and Resources Committee and quarterly to Corporate Leadership Team. Audit, Governance and Standards Committee receive an annual report on the effectiveness of the Council's risk management. We set out the current risk profile below:

Likelihood	5		1	1	1		
	4		3	1	2		
	3		11	42	5		
	2		38	51	29	9	
	1		10	19	18	5	
		1	2	3	4	5	
		Impact					246

69. Following a comprehensive exercise to identify operational risks, we have seen an increase in the total recorded in the comprehensive risk register. This increased to 246 at August 2017 compared with 187 in September 2016.

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Corporate level risks

70. By definition these risks are more strategic, inherently hold a greater impact to the Council, and potentially affect multiple services. They are the key risks that link directly to achieving our priorities. The Council continuously oversees these risks and reports to provide assurance on their management and mitigating actions. These risks are often also a product of the external environment beyond the Council's control.
71. In July 2017 we ran a workshop with Members and Officers to refresh the corporate risks. Its focus was to review the existing corporate risks and identify any new or emerging risks. We also sought to identify risks the Council has successfully managed to a conclusion or have otherwise fallen from prominence owing to passage of time.
72. The tables below provide a summary of the corporate level risks. The matrix shows how each risk owner has assessed the impact and likelihood (see annex 3 for definitions):

Ref.	Risk Heading	Score
a	breakdown of governance controls	8
b	legal / compliance breaches	20
c	workforce capacity & skills	4
d	project failure	20
e	ICT system failure / security	16
f	poor partner relationships	12
g	housing pressures continue to increase	20
h	delays in the local plan being adopted	16
i	financial restrictions	12

Likelihood	5				d, g	
	4				e, h, i	b
	3				f	
	2		c		a	
	1					
		1	2	3	4	5
		Impact				

73. Risks by definition are uncertain, and it is not possible to remove all uncertainty, especially for the risks that align directly to the achievement of our objectives. We will therefore continue to report to Members and monitor progress over the course of the year to highlight any significant movement of risks over time.
74. Risk management is a continuing enterprise. We will continue providing general support to the Council and focus in particular in the coming months on:
- Embedding risk management in decision making;

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- Better integration of the risk framework with project management framework;
- Creation of a risk webpage as part of the shared Mid Kent Audit webpage;
- Training and briefing sessions to Officers and Members.

Counter Fraud Update

75. We consider counter fraud and corruption risks in all of our audit engagements when considering the effectiveness of control. We also undertake distinct work to assess and support the Council's arrangements.

Investigations

76. During 2017/18 we have continue the significant investigation referred in the previous update to the Committee in June. We are now working alongside Kent Police in seeking evidence to allow us to bring the investigation to a conclusion.

Whistleblowing

77. The Council's whistleblowing policy names internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour.

78. We have had two matters raised with us for review during 2017/18. We have resolved both matters to the complainants' satisfaction and there are no details we need to bring to the Committee's attention.

National Fraud Initiative

79. We continue to coordinate the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching project and we must send in various forms of data to the Cabinet Office who manage the exercise.

80. The Cabinet Office released the 2017 matches in January 2017 as reported to this Committee in June 2017. Most matches (64%) fall to the MKS Revenues & Benefits Compliance team to look into. That team report separately to this Committee.

81. We have now embarked on a review of the remaining matches starting with those identified by the Cabinet Office as 'high risk'. We aim to meet the Government expectation to review all matches within two years. We will report results of the matches to Members as part of our year-end review.

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Counter Fraud Policy

82. We reported to Members in June an expectation that CIPFA would be working with local practitioners during 2017/18 to develop counter fraud standards for local government. Through the Head of Audit Partnership's roles with the Internal Audit Standards Advisory Board and London Audit Group we understand that development is delayed. We also note the DWP's recent extension of its pilot on leading Council Tax fraud that might further limit fraud roles within local government.
83. Our plan had been to use these new standards to review the Council's counter fraud and associated policies to ensure they conform to current best practice. However, given the delay in developing national standards, we will now go ahead with this policy review early in the new-year. We will draw on current examples of best practice in governance, such as the *CIPFA Counter Fraud Code*.

Other Audit and Advice Work

84. We also continue to undertake a broad range of special and scheduled consultancy and advice work for the Council. Examples include our attendance at Information Governance and Corporate Governance Groups and as part of the Wider Management Team. We have also completed specific reviews looking at individual parts of the Council's control environment at the request of officers such as payment processes at the Council's depot.
85. More significantly, we undertook an Independent Management Report (IMR) for the Kent & Medway Safeguarding Adults Board. That review followed a referral by Maidstone BC after the death in late 2016 of a vulnerable adult within the borough. As part of that review we considered the Council's interactions with the individual and identified whether opportunities exist to learn lessons to improve services in future.
86. We fed back results to the Chief Executive in July 2017 noting that, especially given the advances in the Council's safeguarding procedures in the last few years, we had no further recommendations for improvement. We presented the IMR to the Kent & Medway Safeguarding Adults Board for consolidation alongside similar reports from various public sector agencies.
87. We remain engaged and flexible in seeking to meet the assurance needs of the Council. We are happy to discuss opportunities large and small where the Council can usefully employ the experience and expertise of the audit team.

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Code of Ethics and Standards Compliance

88. On 1 April 2017 the RIASS² published a changed set of Public Sector Internal Audit Standards (the “Standards”). These updates made more than thirty changes and improvements, building on the recently published International Professional Practices Framework.
89. All auditors working in the public sector (including, for instance, health and central government too) must work to these standards for 2017/18. One specific change is the new demand to report to Senior Management and the Board (Audit Committee) on conformance with the Code of Ethics and the Standards.

Code of Ethics

90. We include the full Code at Annex 2. Although a new document, similar codes were already part of the profession especially for people holding membership of professional institutions. We have included the Code within our Audit Manual and training for some years.
91. We can report to Members we remain in conformance with the Code. For further assurance, the chart below describes some of the working practices and controls we use to encourage and oversee continuing adherence.

Integrity

- Code of ethics within manual and part of basic training
- Working within ethical codes of profession and authorities

Objectivity

- Separate independence declarations globally and on specific work
- Auditors mobile between authorities in partnership

Confidentiality

- Guidance for auditors on minimal retention of personal data in audit files
- Information not of continuing use deleted on completing audit review

Competency

- Need to consider competence before accepting engagements within Audit Charter
- Dedicated personal training budgets to support continuing professional development

² Relevant Internal Audit Standards Setters: A group comprising CIPFA (Chartered Institute of Public Finance & Accountancy), the Department of Health, HM Treasury, the Northern Irish Department of Finance & Personnel and the Welsh and Scottish Governments. The RIASS are advised by the Chartered Institute of Internal Audit (IIA) and the Internal Audit Standards Advisory Board (IASAB).

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Public Sector Internal Audit Standards

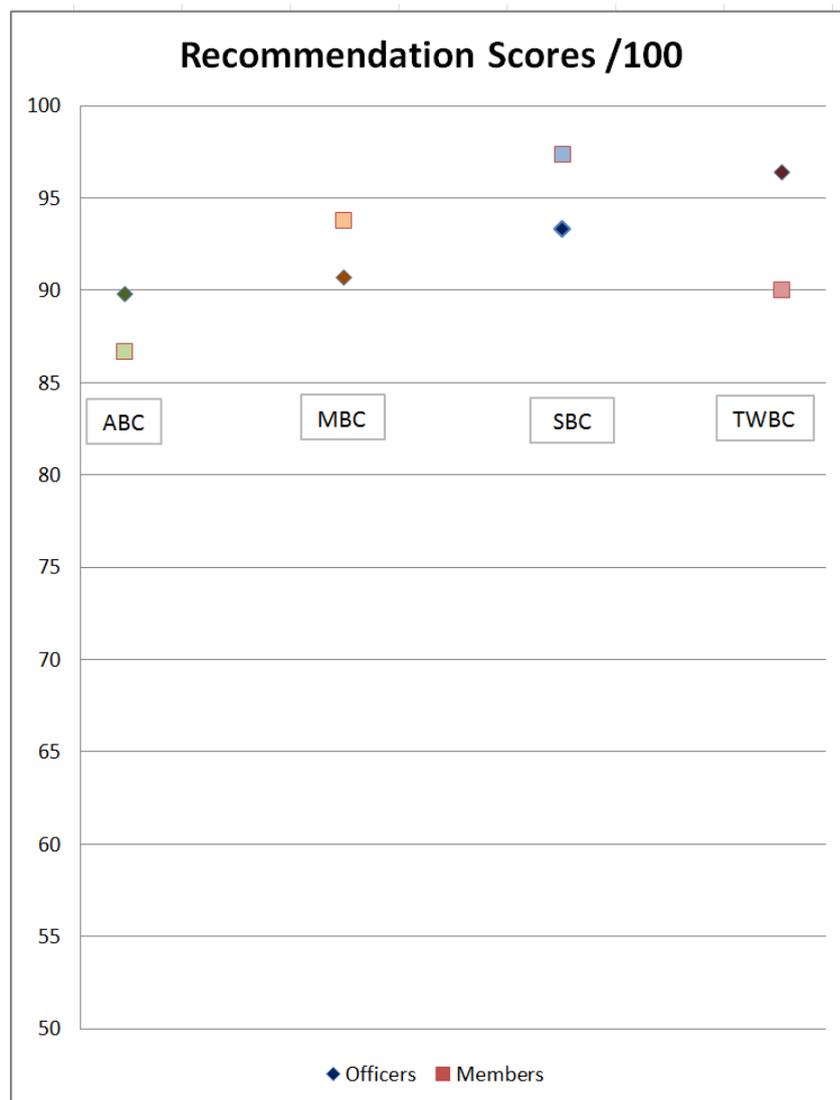
92. Under the Public Sector Internal Audit Standards we must each year assess our conformance to those standards and report the results of that assessment to Members.
93. We underwent an external independent assessment from the IIA in 2014 which confirmed our full conformance with all but 6 of the standards and partial conformance to the rest. In 2015, following action to fulfil the IIA's recommendations, we achieved full conformance to the standards – the first English local authority audit service to be so assessed by the IIA.
94. In 2017 we undertook a self-assessment against the Standards and confirm to Members we remain in full conformance. We will undertake a new self-assessment in 2018 alongside our annual opinion. However, including considering the changes to Standards published for 2017/18, we are confident we remain in full conformance. Our next external assessment is due before 2020.

Mid-Term Review

95. The collaboration agreement between the four authorities demands the service undergo a 'mid-term review' before January 2018. The aim of the review is to ensure the authorities continue to draw the benefits they expect from working together and point towards how the partnership can continue to improve.
96. We undertook this review principally as a self-assessment during late summer 2017. However, we also sought a wide range of qualitative and quantitative evidence including a survey sent to more than a hundred members and officers and face-to-face discussions with key individuals.
97. The overall picture of Mid Kent Audit that emerged from the review is of a service working well and delivering above expectations. Several participants also remarked how much those expectations have risen in recent years, focusing on the clarity of our reporting and the increasing value of advice and wider governance work. Authorities place great value in Mid Kent Audit as a template of how partnership working can deliver improved expertise, resilience and learning unavailable from a single-authority enterprise. As a result, all four authorities show a strong wish to continue the arrangement beyond 2019. They also encourage Mid Kent Audit to take on extra roles and work outside the partnership where doing so can continue delivering benefits to the authorities.

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98. We found the current collaboration agreement contains various sections related to the detail of service delivery that do not work as intended. However, we noted councils did not consider the variations important and most were unaware of them. Essentially, while satisfaction is high, councils have not inquired deeply into the detail. This gives strong support for the future agreement to focus more narrowly on governance with questions of service delivery for agreement with individual authorities through audit plans and charters.
99. The full report goes into detail on the governance and survey results but we'd like to highlight one area. The final question of the survey invited participants to score on a scale of 0-100 the question of how likely they would be, if asked, to recommend Mid Kent Audit to another authority. The results showed a strong positive response to the audit service remaining consistent across members, officers and authorities.



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Performance Indicators

100. Aside from the progress against our audit plan we also report against some specific performance measures designed to oversee the quality of service we deliver to partner authorities. The Audit Board (with Mark Green, Director of Finance & Business Improvement as the Council's representative) considers these measures at each quarterly meeting. We also consolidate the results into reports presented to the MKS Board (which includes the Council's Chief Executive and Leader).

101. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

Measure	2014/15 Results	2015/16 Results	2016/17 Results	2017/18 Q2 Results
Cost per audit day	Met target	Met target →←	Beat target ↑	Beating target ↑
% projects completed within budgeted number of days	47%	60% ↑	71% ↑	77% ↑
% of chargeable days	75%	63% ↓	74% ↑	75% ↑
Full PSIAS conformance	56/56	56/56 →←	56/56 →←	58/58 ↑
Audit projects completed within agreed deadlines	41%	76% ↑	81% ↑	85% ↑
% draft reports within ten days of fieldwork concluding	56%	68% ↑	71% ↑	77% ↑
Satisfaction with assurance	100%	100% →←	100% →←	100% →←
Final reports presented within 5 days of closing meeting	89%	92% ↑	94% ↑	100% ↑
Respondents satisfied with auditor conduct	100%	100% →←	100% →←	100% →←
Recommendations fulfilled as agreed	95%	98% ↑	98% ↑	95% →←
Exam success	100%	100% →←	85% ↓	67% ↓
Respondents satisfied with auditor skill	100%	100% →←	100% →←	100% →←

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102. We note the continuing improvement in performance and productivity in our project reviews, while keeping high levels of satisfaction with the service.
103. While we seek comments from a broad range of sources, the principal driver for the satisfaction numbers is responses to the surveys we circulate with each final report. Response rates to the surveys have varied over the years, but never been high. The response rate at this authority is 15%, placing third amongst the partner authorities. We continue to work with audit sponsors, recognising the many draws on their time, to develop ways to gain comments on our work.
104. On exam success, we continue to see the influence of the IIA's change to its qualification approach that has depressed pass rates across the country. Our results remain above the national average and our people continue to succeed at retake.

Swale Stars Team of the Year 2017

105. We report with delight that we received "Team of the Year" at the *Swale Stars* awards earlier this year. As a purely internal service with no public facing role we are aware that audit is often, understandably, overlooked for awards so take great pride in this honour. Beyond the performance data and results noted above we believe firmly that an effective audit service is one that creates and nurtures close working with our clients. It is only by that close working that we can fulfil the mission of internal audit to provide effective, insightful and future focused support.



106. Our integrated working means almost the entire team has spent some time at Swale and so contributed to our achievement. However we'd like to praise the individuals who work most closely with the Council; Frankie Smith and Jo Herrington.

Acknowledgements

107. We achieve these results through the hard work and dedication of our team and the resilience that comes from working a shared service across four authorities.
108. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through the year so far.
109. We would also like to thank Managers, Officers and Members for their continued support as we complete our audit work during the year.

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Annex 1: Assurance & Priority level definitions

Assurance Ratings 2017/18 (Unchanged from 2014/15)

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

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Recommendation Ratings 2017/18 (unchanged from 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.

MID KENT AUDIT

Annex 2: Institute of Internal Audit Code of Ethics

{ CODE of ETHICS... }

// PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

- **Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

- **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

// RULES OF CONDUCT

1. **Integrity**

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. **Objectivity**

Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. **Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

MID KENT AUDIT

ANNEX 3 Definitions for Impact and Likelihood

Risks are assessed for impact and likelihood. So that we achieve a consistent level of understanding when assessing risks, the following agreed definitions have been used to inform the assessment of risks on the comprehensive risk register.

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. 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 Poor service. Disrupted 5 days+	Significant adverse national publicity	Fails to prevent death, causes extensive perm injuries or LT sick	Litigation expected, but defensible 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 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 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 Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Unlikely to cause complaint 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 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

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

¹ Photograph of the Anchor Inn, Hampstead Lane from https://www.tripadvisor.co.uk/Restaurant_Review-g187056-d3346406-Reviews-The_Anchor_Inn-Maidstone_Kent_England.html

Audit, Governance and Standards Committee

20 November 2017

External Auditor's Annual Audit Letter 2016/17

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

Executive Summary

The Annual Audit Letter summarises the main findings from the work undertaken by the External Auditor for the year ended 31 March 2017, and brings the audit process for 2016/17 to a close.

This report makes the following recommendations to this Committee:

1. That the External Auditor's Annual Audit Letter for the year ending 31 March 2017, attached at Appendix 1, is noted.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	20 November 2017

External Auditor's Annual Audit Letter 2016/17

1. INTRODUCTION AND BACKGROUND

- 1.1 The Annual Audit Letter summarises the main findings from the work undertaken by the external auditor for the year ended 31 March 2017. Representatives from Grant Thornton will be in attendance at the meeting to present the letter and respond to any questions which Committee Members may have.
- 1.2 It is recommended that this document is considered by the Committee in accordance with the terms of reference detailed within the Council's Constitution.
- 1.3 The Committee considered the External Auditor's Audit Findings report for the year ending 31 March 2017 at its meeting on 18 September 2017. The Annual Audit Letter at Appendix 1 summarises the key findings arising from the audit and effectively concludes this process by confirming that:
 - The External Auditor gave an unqualified opinion on the Council's accounts on 28 September 2017, in advance of the 30 September 2017 national deadline; and
 - The External Auditor is satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

2. AVAILABLE OPTIONS

- 2.1 The Committee are asked to note this report for the reasons outlined within section 3.1 below.
- 2.2 The Committee could choose not to acknowledge the comments made by the External Auditor. This option is not recommended since the report offers an independent view of how the authority is operating.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 It is recommended that the Committee notes the External Auditor's Annual Audit Letter included at Appendix 1 to this report and considers whether any recommendations should be made to other Committees. As the Committee is charged with governance matters, receiving regular reports from the External Auditor plays an important role in ensuring that its responsibilities are discharged effectively.
-

4. RISK

4.1 This report is presented for information only and has no risk management implications.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 No formal consultation has been undertaken in relation to this report.

5.2 This Committee previously considered the External Auditor's Audit Findings report for the year ending 31 March 2017 as part of the formal adoption of the annual financial statements for the 2016/17 financial year.

6. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	<ul style="list-style-type: none">The Council is committed to delivering on its priorities and securing value for money through effective governance. This letter is one measure of how effective the Council has been in delivering against this commitment.	Head of Finance
Risk Management	<ul style="list-style-type: none">This report is presented for information only and has no risk management implications.	Head of Finance
Financial	<ul style="list-style-type: none">The financial implications arising from the work of external audit are detailed within Appendix 1.	Section 151 Officer & Finance Team
Staffing	<ul style="list-style-type: none">None identified.	Head of Service of Finance
Legal	<ul style="list-style-type: none">None identified.	Legal Team

Privacy and Data Protection	<ul style="list-style-type: none"> • None identified. 	Legal Team
Equalities	<ul style="list-style-type: none"> • The recommendations do not propose a change in service therefore will not require an equalities impact assessment 	Policy & Information Manager
Crime and Disorder	<ul style="list-style-type: none"> • None identified. 	Head of Finance
Procurement	<ul style="list-style-type: none"> • None identified. 	Head of Finance

7. REPORT APPENDICES

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

- Appendix 1: Annual Audit Letter for the year ending 31 March 2017
-

8. BACKGROUND PAPERS

Audit Findings Report 2016/17

<https://services.maidstone.gov.uk/meetings/documents/s56839/Appendix%20A%20-%20Audit%20Findings%20Report%202016-17.pdf>

Audited Statement of Accounts 2016/17

http://www.maidstone.gov.uk/_data/assets/pdf_file/0018/145008/Audited-Annual-Accounts-2016-v2.pdf

APPENDIX 1

EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER 2016/17

The Annual Audit Letter for Maidstone Borough Council

Year ended 31 March 2017

3 October 2017

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Darren Wells

Engagement Lead

T 01293 554 120

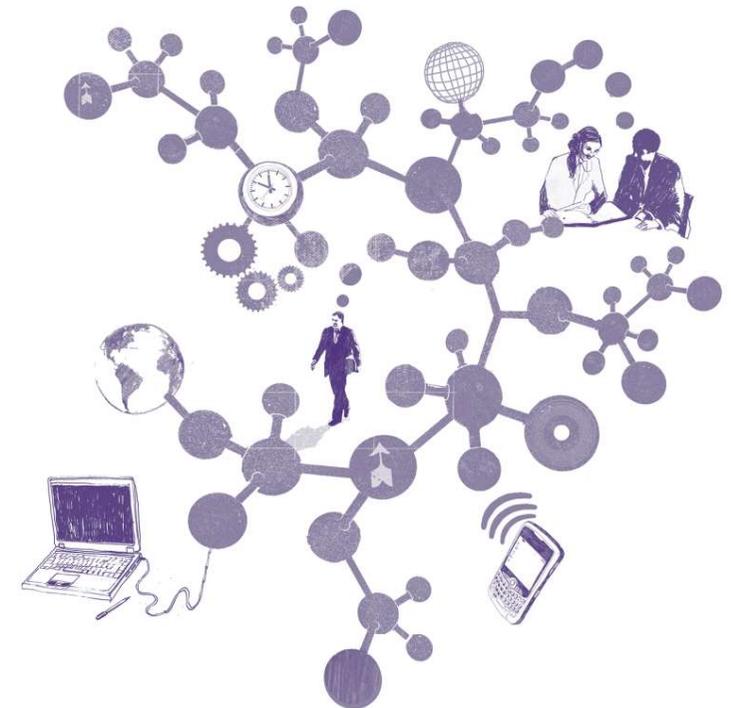
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Maidstone Borough Council (the Council) for the year ended 31 March 2017.

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

We reported the detailed findings from our audit work to the Council's Audit, Governance and Standards Committee (as those charged with governance) in our **Audit Findings Report** on 18 September 2017.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 28 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Maidstone Borough Council in accordance with the requirements of the Code on 28 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit, Governance and Standards Committee in our Annual Certification Letter.

Working with the Council

From 2017/18, the statutory deadlines for preparation and audit of the financial statements will be brought forward and the Council will be required to produce draft statements by 31 May, and secure an audit opinion by 31 July 2018.

Executive summary

We will work in partnership with the Council to complete a substantial amount of early audit testing prior to March 2018 which will help to drive efficiencies within the year end audit process.

Moving towards an earlier deadline, particularly within the more complex environment within which you now operate, will require an element of redesign of some of the closedown processes, arrangements and internal business processes.

We have worked with many clients to successfully implement faster close and will continue to work with the Council during the coming year to support the Council in achieving the earlier deadlines.

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

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £1.79 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for Cash of £500k, as was reported within our Audit Findings Report.

We set a lower threshold of £90,650, above which we reported errors to the Audit, Governance and Standards Committee in our Audit Findings Report.

The scope of our audit

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

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

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

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

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

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

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue 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"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we did not consider this to be a significant risk for Maidstone Borough Council.</p>	<p>Our audit work did not identify any issues in respect of revenue recognition.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet represents a significant estimate in the financial statements.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement; • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation; • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; • Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary; • We wrote 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. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p> <p>We used an auditor's expert to provide assurance on the Council's actuary's work. Our expert concluded that the assumptions used by the actuary to be reasonable in most cases although in some instances the assumptions fall outside of expected ranges. Looking at the impact of all assumptions holistically, we obtained sufficient assurance that the pension fund liability is not materially misstated.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 September 2017, in advance of the 30 September 2017 national deadline.

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

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit, Governance and Standards Committee on 18 September 2017.

During the course of our work we identified several minor presentation and disclosure amendments which the Council processed in the final version of the Accounts. We also identified one control issue around timely and accurate updating of the Council's Property, Plant and Equipment Register, as our testing identified a handful of small errors in this area. The Council acknowledge this and are planning to implement improvements in this area to ensure this is updated correctly over the coming months.

Annual Governance Statement and Narrative Report

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

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

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial Position 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. 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>We performed the following work in respect of this area:</p> <ul style="list-style-type: none"> • reviewed the progress against the 2017-18 financial plan up to the completion of our audit; and • obtained an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years, including discussions with Management on progress to date. 	<p>The key points from our work in this area are the following:</p> <ul style="list-style-type: none"> • The Council delivered a £89k underspend against its General Fund Budget in 2016-17, despite having to deal with considerable overspends caused by the increased demand for temporary accommodation from people who became homeless during the course of the year. This area is an ongoing challenge in 2017-18, and the Council is continuing with its plan of purchasing properties to redevelop to provide its own source of accommodation to reduce the financial burden of the continued increase in homelessness cases in the Borough. • The Council has set a balanced budget for 2017-18, which includes £1,819k of savings and/or additional income generation schemes, which were identified in full by the Council before the financial year started. Of the £1,819k, £772k comes from income generation schemes, £684k efficiencies, £170k from transformation programmes, and the remainder from service reductions. This shows that the Council is continuing to take a balance approach to managing budget gaps, generating savings against additional sources of income. This will continue to be important as most of the obvious savings have now been utilised and different approaches will be needed to fill future budget gaps. • Over the life of the 2017 to 2022 Medium Term Financial Plan (MTFP), the Council has identified £3.4m of the £4.2m savings it estimates are required, which puts the Council in a strong position. However very little has been identified post-2020, which is largely due to the level of uncertainty over what Local Government funding is going to look like post-2020, when the new funding settlement is going to be implemented. To date the Council has taken a prudent approach to forecasting for this period, including expected additional costs and income in the MTFP to provide what it hopes will be a realistic assessment of the potential budget gap over this period. • During the course of updating the MTFP for the period covering 2018-2023, three scenarios (favourable, neutral and adverse) have been shared to highlight the range of potential savings/additional income which may be needed over this period. The worse case scenario could lead to the Council needing to identify a further £7,702k of savings/income over the next five year cycle, which would prove a real challenge given this equates to 22% of the total resources available to the Council. • At this present time, the Council is working to the 'neutral' position which estimates a budget gap of £2,111k over the medium term planning period. The Council has a good track record of delivering its plans over recent years and its arrangements for the medium term means it is well placed to deal with the challenges ahead, which are going to impact all councils over the next couple of years.

Appendix A: Reports issued and fees

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

Fees

	2016/17 Proposed fee £	2016/17 Actual fees £	2015/16 fees £
Statutory audit of Council	50,475	50,475	50,475
Housing Benefit Grant Certification	10,433	TBC	11,418
Total fees (excluding VAT)	60,908	TBC	61,893

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

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, would be shown under 'Fees for other services', but there are no items of this type to be considered in 2016-17.

Our final fee for this work will only be confirmed once we have completed all of the work required by this certification, which will be completed by the end of November 2017, which is the national deadline for the completion of this work.

Reports issued

Report	Date issued
Audit Plan	20 March 2017
Audit Findings Report	18 September 2017
Annual Audit Letter	3 October 2017

Fees for other services

Service	Fees £
Audit related services:	None
Non-audit services:	
• Investing in People Programme	16,000

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to Maidstone Borough Council	Fees (£)	Threat?	Safeguard
Audit related services	N/A	N/A		
Non-audit services	Investing in People Programme	16,000	Yes	This piece of work was performed by a separate department within Grant Thornton, who have had no involvement in the external audit, or any communication with members of the audit team during the course of the year. Therefore we are satisfied sufficient safeguards were put in place in respect of this piece of work.
	TOTAL	16,000		

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The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Audit Committee.



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Agenda Item 16

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

20 November 2017

Treasury Management Mid Year Review 2017/18

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service/Lead Director	Ellie Dunnet - Head of Finance
Lead Officer and Report Author	John Owen – Finance Manager
Classification	Public
Wards affected	All

Executive Summary

This report sets out the activities of the Treasury Management Function for the first 6 months of financial year 2017/18 in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities.

This report makes the following recommendations to this Committee:

1. Notes the position of the Treasury Management Strategy as at 30 September 2017.
2. No amendments to the current procedures are necessary as a result of the review of activities in 2017/18.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	20 November 2017

Treasury Management Mid Year Review 2017/18

1. INTRODUCTION AND BACKGROUND

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

1.2 The Authority's Treasury Management Strategy for 2017/18 was approved by Council at a meeting on 1 March 2017. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's Treasury Management Strategy.

1.3 This report sets out the activities of the Treasury Management function for the first 6 months of financial year 2017/18 in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 6 months.

1.4 The key elements of the 2017/18 Strategy are:

1.4.1 Investment Strategy

- The maximum principal sum to be invested for a period exceeding 364 days has been reduced to £5m from £8m. This is 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 will endeavour to further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments are considered; and
- The expected level of interest income to be generated through investment returns has been revised downwards in light of the current economic outlook and interest rate forecasts.

1.4.2 Borrowing Strategy

- The maximum and expected prudential borrowing required to fund the capital programme was estimated at £1,029,870. However this did not include any internal borrowing, so the expected borrowing for the year in practice would have been nil.

1.5 Economic Review of 2017/18

1.5.1 UK Consumer Price Inflation (CPI) index rose with the data print for September showing CPI at 3.0%, its highest since June 2013, as the fall in

the value of sterling following the June 2016 referendum result continued to feed through into higher import prices.

- 1.5.2 The unemployment rate fell to 4.3%, its lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively.
 - 1.5.3 Gilt yields displayed significant volatility over the six-month period. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.
 - 1.5.4 UK bank credit default swaps continued their downward trend, reaching three-year lows by the end of June. There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds Building Society from A2 to A3. Standard & Poors also revised Nordea Bank's outlook to stable from negative, whilst affirming their long-term rating at AA-. The agency also upgraded the long-term rating of ING Bank from A to A+.
 - 1.5.5 Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.
 - 1.5.6 The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. Bank Rate remained at 0.25% throughout this period (the Bank Rate has subsequently increased to 0.5% in November since writing this report).
- 1.6 Maidstone Borough Council Overview
- 1.6.1 The Council has used highly rated institutions which are listed on its counterparty list to invest its funds. All new investments during the first 6 months of 2017/18 are short term (less than one year) making them readily available when required. Total investments as at 30 September 2017 were £26.455m. A list of these can be found in **Appendix A**.

1.6.2 The average rate on Council investments is 0.42% and investment income totalled £106,000. Investment rates have remained low during this period and the Council's average investment rate has fallen below the benchmarked rate of 3 month LIBOR rate plus 10 basis points (0.43% as at 30 September 2017). Due to additional slippage in the capital programme, the Council has starting to invest slightly longer. This increases the risk of a counterparty failing so higher rated instruments will be utilised. However, this will mean that rates will not increase in line with the duration.

1.6.3 There has been no requirement to borrow during this period.

1.7 Annual Investment Strategy

1.7.1 The Treasury Management (TM) Strategy was approved for 2017/18 by Council in March 2017. The Council's Annual Investment Strategy is incorporated in the TM Strategy and outlines the Council's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

1.7.2 The Council will aim to achieve optimum return on investments after having satisfied proper levels of security and liquidity. It was agreed to keep investments short term with highly credit rated financial institutions, using the creditworthiness list, information provided by the Council's investment advisors, Arlingclose, along with sharing information with other local authorities and being mindful of market intelligence.

1.8 Prudential and Treasury Indicators

1.8.1 It is a statutory duty for the Council to determine and keep under review 'Affordable Borrowing Limits.' During the financial year 2017/18, the Council has operated with the prudential and treasury indicators set out in the Treasury Management Strategy Statement and in compliance with the Council's Treasury management Practices. The prudential and treasury indicators are shown within **Appendix B**.

1.9 Cash Management

1.9.1 The major element of the Council's Treasury Management function is the management on a daily basis of the cash requirements of the Council. The policy objectives are:

- The minimisation of the daily credit bank balance, subject to the clearance of monies overnight;
- Interest earned on investments should be maximised subject to the security of funds being paramount;
- Interest paid on borrowing should be minimised;

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

2. AVAILABLE OPTIONS

- 2.1 The Audit, Governance and Standards Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities within the first 6 months of 2017/18.
- 2.2 The Audit, Governance and Standards Committee proposes changes to the current procedures as a result of a review of activities within the first 6 months of 2017/18.
-

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 The Audit, Governance and Standards Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities within the first 6 months of 2017/18 as there are no justifications to make any changes.
-

4. RISK

- 4.1 This report is presented for information only and has no risk management implications.
- 4.2 Risk management is included within the Treasury Management Practices to which the Council adheres. These risks comprise of:
- Credit and counterparty risk,
 - Liquidity risk,
 - Interest rate risk and
 - Exchange rate risk, refinancing risk (however, the Council only deals in its home currency sterling).
 - Legal & regulatory risk
 - Fraud, error and corruption
 - Market risk management.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 None.
-

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

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

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims as set out in section 3.	Head of Finance
Risk Management	Already covered in the risk section of the report.	Head of Finance
Financial	This report relates to the financial activities of the Council in respect of treasury management and specific financial implications are therefore detailed within the body of the report.	Director of Finance & Business Improvement
Staffing	None	
Legal	The report is in compliance with statutory and legal regulations, e.g. CIPFA Code of Practice on Treasury management in local authorities.	Deputy Head of Mid Kent Legal Partnership
Privacy and Data Protection	None	
Equalities	None	
Crime and Disorder	None	
Procurement	None	

8. REPORT APPENDICES

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

- Appendix A: Treasury Management Mid-Year Review 2017/18 - List of Investments
- Appendix B: Treasury Management Mid-Year Review 2017/18 - Prudential and Treasury Indicators

9. BACKGROUND PAPERS

9.1 None

Maidstone Borough Council Investments as at 30th September 2017

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Rate of Return	Arlingclose Credit Limits	
						Suggested Term	Maximum Deposit
SANTANDER UK PLC	NOTICE ACCOUNT	3,000,000			0.550%	6 months	£3,000,000
GOLDMAN SACHS ASSET MANAGEMENT	MONEY MARKET FUND	455,000			0.130%	2 Years	£8,000,000
STANDARD LIFE LIQUIDITY FUNDS	MONEY MARKET FUND	5,000,000			0.203%	2 Years	£8,000,000
FEDERATED INVESTORS (UK)	MONEY MARKET FUND	5,000,000			0.210%	2 Years	£8,000,000
LLOYDS BANK PLC	DEPOSIT - FIXED	2,000,000	12/10/2016	11/10/2017	1.000%	6 months	£3,000,000
GOLDMAN SACHS INT'L BANK	DEPOSIT - FIXED	2,000,000	12/07/2017	20/10/2017	0.330%	100 Days	£3,000,000
NATIONAL COUNTIES BUILDING SOCIETY	DEPOSIT - FIXED	1,000,000	12/07/2017	20/10/2017	0.350%	100 Days	£3,000,000
BLACKPOOL BOROUGH COUNCIL	DEPOSIT - LA	2,000,000	29/09/2017	29/03/2018	0.300%	2 Years	£8,000,000
FEDERATED INVESTORS (UK)	ENHANCED CASH FUND	3,000,000			0.359%	2 Years	£8,000,000
STANDARD LIFE LIQUIDITY FUNDS	ENHANCED CASH FUND	3,000,000			0.280%	2 Years	£8,000,000

26,455,000

PRUDENTIAL INDICATORS

Capital Expenditure

2016/17 Actual £,000	2017/18 Estimate £,000	2017/18 Actual £,000
12,367	12,646	6,195

Actual capital expenditure as at 30th September 2017.

Capital Financing Requirement

2016/17 Actual £,000	2017/18 Estimate £,000	2017/18 Actual £,000
-6,400	-2,993	99

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. A negative figure shows the Authority has more than sufficient reserves to fund its capital programme at this point.

Treasury Indicators

Authorised Limit for External Debt

	2016/17 Actual £,000	2017/18 Estimate £,000	2017/18 Actual £,000
Borrowing	1,500	5,030	0
Other Long Term Liabilities	4,514	4,033	4,033
Total	6,014	9,063	4,033

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

Operational Limit for External Debt

	2016/17 Actual £,000	2017/18 Estimate £,000	2017/18 Actual £,000
Borrowing	1,500	1,030	0
Other Long Term Liabilities	4,971	4,033	4,033
Total	6,471	5,063	4,033

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

Upper Limit for Fixed Interest Rate Exposure

2016/17 Actual £,000	2017/18 Estimate £,000	2017/18 Actual £,000
-22,000	-38,970	-10,000

This is the maximum amount of net borrowing and investment that can be at a fixed rate. A negative figure shows an investment amounts are higher than borrowing amounts.

Upper Limit for Variable Interest Rate Exposure

2016/17 Actual £,000	2017/18 Estimate £,000	2017/18 Actual £,000
-21,243	-32,000	-23,650

This is the maximum amount of net borrowing and investment that can be at a variable rate. A negative figure shows an investment amounts are higher than borrowing amounts.

Principal Invested for more than 364 Days

2016/17 Actual £,000	2017/18 Estimate £,000	2017/18 Actual £,000
0	5,000	0

This indicator shows the Council shows the level of investments which over 364 days to maturity. The Council is yet to invest for this period.

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

20 November 2017

Budget Strategy – Risk Assessment Update

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service/Lead Director	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Mark Green, Director of Finance and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

This report provides an update on the budget risks facing the Council. The Council continues to face a high risk arising from uncertainty about the Government’s intentions regarding the future funding of local government. There is an emerging risk arising from the potential introduction of restrictions on local authority borrowing, which could affect the Council’s ability to fund its capital programme.

This report makes the following recommendations to this Committee:

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

Timetable

Meeting	Date
Audit, Governance and Standards Committee	20 November 2017

Budget Strategy – Risk Assessment Update

1. INTRODUCTION AND BACKGROUND

- 1.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Members have requested that the Budget Risk Matrix and Risk Register be updated and reported to each meeting of the Committee, so that it continues to be fully briefed on factors likely to affect the Council's budget position.
- 1.2 The key element in the Council's budget strategy is its rolling five year Medium Term Financial Strategy (MTFS). An updated five year MTFS for 2018/19 – 2022/23 was agreed by Council at its meeting on 25th October. The MFS financial projections were updated and rolled forward, taking account of:
 - An assessment of external opportunities and threats
 - Evaluation of existing budget savings in the five year plan
 - Latest emerging information about economic developments and government policy.
- 1.3 The core inflation assumption in the MTFS is 2%, in line with the Bank of England's target. However, recent inflation figures have been significantly higher than this. If this higher inflation rate is sustained, then our assumptions will need to be revisited.
- 1.4 Given uncertainty about the future, the MTFS projections have been prepared on the basis of various potential scenarios, representing (a) favourable, (b) neutral and (c) adverse sets of circumstances. Work is currently under way to prepare budget proposals that respond to the different scenarios.
- 1.5 In the short term, a measure of greater certainty has now been provided by the government's confirmation that the Council Tax referendum limit will be the higher of £5 or 2% in 2018/19. However, in 2019/20 the Council still faces the likelihood that it will have to pay the government 'negative Revenue Support Grant' of £1.6 million. The position for 2020/21 onwards remains very unclear.
- 1.6 There have been indications, in advance of the Chancellor's budget statement on 22 November 2017, that restrictions may be introduced on local authority borrowing. This follows adverse publicity for substantial borrowing undertaken by a small minority of local councils. Depending on the nature of the restrictions, this may affect Maidstone Borough Council's capacity to fund its capital programme.
- 1.7 Performance so far for the current financial year 2017/18 has been broadly in line with budget. There are potential overspends in the areas of temporary accommodation and planning appeals but it looks at this stage as though these can be offset by underspends elsewhere. The implementation of projected increases in Planning Fees has been delayed, but this income

shortfall is more than offset by continued strong performance from parking income.

1.8 The risks included in the Budget Risk Register have been reviewed in light of the above developments. A summary of the changes to the risk register is set out below. Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register.

	Risk	Factor considered	Implications for risk profile
B	Fees and Charges fail to deliver sufficient income	Implementation of a Planning Fee increase (which would have generated additional income of £200,000) was delayed owing to the General Election. This is more than offset by better than budgeted income elsewhere.	Impact – no change Likelihood – reduced
G	Inflation rate predictions underlying MTFS are inaccurate	CPI increase was 3.0% for the year to September 2017. MTFS projections are based on 2.0%.	Impact – no change Likelihood – increased
I	Constraints on Council Tax increases	The government has confirmed a referendum cap of £5 / 2% in 2018/19. The impact of this has been mitigated as the MTFS assumes that Council Tax cannot be increased by any more than this amount.	Impact – reduced Likelihood – no change
J	Capital programme cannot be funded	The MTFS assumes that the Council will be able to borrow from the PWLB at competitive rates. However, it is possible that controls may be introduced over local authority borrowing in the Chancellor’s November 2017 budget.	Impact – no change Likelihood – increased

2. AVAILABLE OPTIONS

2.1 Option 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 Council’s service planning and/or be reflected in the developing Medium Term Financial Strategy.

2.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 Option 2 – It is recommended that the Committee notes the risk assessment.

4. RISK

4.1 Risk is addressed throughout this report so no further commentary is required here.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 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.

5.2 Public consultation on the budget last year 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 results of the consultation were set out in reports to the Service Committees on the budget proposals.

5.3 A Residents’ Survey was undertaken during the Summer and will inform how the Council responds to the financial projections in the updated MTFS. Detailed budget proposals for next year will be subject to public consultation and review by the Service Committees.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

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

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial	Director of Finance and Business

	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.	Improvement
Risk Management	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
Financial	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
Staffing	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
Legal	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
Privacy and Data Protection	No implications.	Director of Finance and Business Improvement
Equalities	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	Director of Finance and Business Improvement

	core services. 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.	
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8. REPORT APPENDICES

The following document is to be published with this report and forms part of the report:

- Appendix A: Budget Strategy Risks

9. BACKGROUND PAPERS

None.

Budget Strategy Risks

Summary

The risk matrix below provides a summary of the key budget risks. The risk register that follows provides more detail on each risk.

Likelihood	5					
	4					
	3		B	G	H,J	
	2		E,I	C,D,F, L,M	A,D	
	1		K			
		1	2	3	4	5
		Impact				

- A. Failure to contain expenditure within agreed budgets**
- B. Fees and Charges fail to deliver sufficient income**
- C. Commercialisation fails to deliver additional income**
- D. Planned savings are not delivered**
- E. Shared services fail to meet budget**
- F. Council holds insufficient balances**
- G. Inflation rate predictions underlying MTFS are inaccurate**
- H. Adverse impact from changes in local government funding**
- I. Constraints on council tax increases**
- J. Capital programme cannot be funded**
- K. Increased complexity of government regulation**
- L. Collection targets for Council Tax and Business Rates missed**
- M. Business Rates pool fails to generate sufficient growth**

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.

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
A 102	<p>Failure to contain expenditure within agreed budgets</p> <p>The Council overspends overall against its agreed budget for the year</p>	<p>Failure to meet the 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>	<ul style="list-style-type: none"> - Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2017/18. - Strong controls over expenditure and established process for recovering from overspends 	4	2	8
B	<p>Fees & Charges fail to deliver sufficient income</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>	<ul style="list-style-type: none"> - Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised. 	2	3	6
C	<p>Commercialisation fails to deliver additional income</p> <p>The commercial activities currently being delivered and projected in the MTFs do not</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>	<ul style="list-style-type: none"> - The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but 	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	deliver the expected level of income.	Income generation from commercial activities supports the revenue budget and is required in order to pay back capital investment.	<p>available to cover short term losses.</p> <ul style="list-style-type: none"> - 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. - Decision made to outsource the management of the Mote Park Café from Autumn 2017. 			
103 D	<p>Planned savings are not delivered</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"> - 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. - Savings proposals are separately identified and monitored in the Council's general ledger. - The ability to achieve the targeted savings is reported quarterly to Corporate Leadership Team and to Service Committees. 	4	2	8
E	<p>Shared Services</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

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
F	<p>Insufficient Balances Minimum balance is insufficient to cover unexpected events</p> <p>OR</p> <p>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
G	<p>Inflation rate predications underlying MTFS are inaccurate 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 an increase in balances or unused resources that could be used to achieve strategic priorities.</p>	<p>- Allowances for inflation are developed from three key threads:</p> <ul style="list-style-type: none"> ○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally <p>- MTFS inflation projections are based on the government's 2% target but CPI is now well above this level..</p>	3	3	9
H	<p>Adverse impact from changes in local government funding 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 and will be subject to 'negative RSG' in 2019/20. 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 Fstrategy to 2022/23 includes an adverse scenario which allows 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	4	12
I	<p>Constraints on council tax increases The limit on Council Tax increases means that the Council must manage expenditure</p>	<p>The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be</p>	<p>- Planning for the budget 2018/19 has been based upon a £4.95 (2.06%) increase, as agreed by Policy and Resources Committee at its meeting on</p>	2	2	4

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	pressures even if these potentially give rise to cost increases greater than 2% per annum.	absorbed by making savings elsewhere.	25 July 2017 and by full Council at its meeting on 25 October 2017. - The Government has now confirmed the £5/2% cap on Council Tax increases for 2018/19..			
J 105	Capital Programme cannot be funded Reduction or total loss of funding sources means that the capital programme cannot be delivered	The main sources of funding are: <ul style="list-style-type: none"> ○ New Homes Bonus ○ Capital Grants ○ Prudential borrowing ○ Developer contributions (£106) A reduction in this funding will mean that future schemes cannot be delivered.	- Council has been able to fund the capital programme without recourse to borrowing so far, - Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria. - Local authorities continue to be able to access borrowing at relatively low cost through the Public Works Loan Board but there is a risk that this may be subject to restrictions in future.	4	3	12
K	Increased complexity of government regulation 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.	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. In general these events bring consequences to other agencies and external relationships.	- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents. - Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.	2	1	2
L	Business Rates & Council Tax collection Council fails to maintain collection targets for business rates and council tax	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.	- The Council has a good track record of business rates and Council Tax collection. - Steps are taken to maximise collection rates, such as active debt collection, continual review of	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		<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>	discounts, etc.			
M 106	<p>Business Rates pool</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. The projected benefit of pool increased from £5.1m to £7.5m in 2017/18.</p> <p>- The Council has the ability to exit the pool on 1st April in any year by giving notice by the previous September.</p> <p>- The Council has applied with other Kent authorities to take part in a 100% Business Rates Retention pilot in 2018/19, which would generate further additional benefits.</p>	3	2	6

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. Breaches of law	Uncontrollable financial loss or overspend over £500k	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor service. Disrupted 5 days+	Significant adverse national publicity	Fails to prevent death, causes extensive perm injuries or LT sick	punishable by imprisonment or significant fines	Financial loss or overspend greater than £250k	Long term major public health or environmental incident (1yr+)
Moderate (3)	Unsatisfactory performance Service disrupted/ stopped 3-5 days	Adverse national publicity or significant adverse local publicity	Fails to prevent extensive, permanent injuries or LT sickness	Litigation expected, but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1yr)
Minor (2)	Marginal reduction in performance Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Complaint likely, litigation possible Breaches of regs or standards	Financial loss or overspend greater than £10k	Short term public health or environmental incident (weeks)
Minimal (1)	No significant service impact Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries	Unlikely to cause complaint Breaches of local procedures	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