

# AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 18 March 2019  
Time: 6.30 p.m.  
Venue: Town Hall, High Street, Maidstone

## Membership:

Councillors Bartlett, Coulling (Parish Representative), Cox, Daley, Harvey (Vice-Chairman), McLoughlin (Chairman), Perry, Purle, Titchener (Parish Representative) and Webb

*The Chairman will assume that all Members will read the reports before attending the meeting. Officers are asked to assume the same when introducing reports.*

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<b><u>AGENDA</u></b>	<b><u>Page No.</u></b>
1. Apologies for Absence	
2. Notification of Substitute Members	
3. Urgent Items	
4. Notification of Visiting Members	
5. Disclosures by Members and Officers	
6. Disclosures of Lobbying	
7. To consider whether any items should be taken in private because of the possible disclosure of exempt information	
8. Minutes of the meeting held on 14 January 2019	1 - 9
9. Question and answer session for members of the public (if any)	
10. Committee Work Programme 2019/20	
11. Housing Benefit Grant Claim	10 - 17
12. Contract Management Update	18 - 24
13. Internal Audit & Assurance Plan 2019/20	25 - 53
14. External Auditor's Audit Plan 2018/19	54 - 74
15. External Audit Progress Report - March 2019	75 - 93

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**Issued on Friday 8 March 2019**

**Continued Over/:**

*Alison Broom*

**Alison Broom, Chief Executive**

### **PUBLIC SPEAKING AND ALTERNATIVE FORMATS**

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## MAIDSTONE BOROUGH COUNCIL

### AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

#### MINUTES OF THE MEETING HELD ON 14 JANUARY 2019

**Present:** Councillor McLoughlin (Chairman) and Councillors Bartlett, Coulling (Parish Representative), Cuming, Harvey, Perry, Titchener (Parish Representative) and Webb

**Also Present:** Ms Elizabeth Jackson, External Auditor, Grant Thornton

65. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Cox, Daley and Purle.

66. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Cuming was substituting for Councillor Purle.

67. COUNCILLOR PETER TITCHENER

The Chairman welcomed Councillor Peter Titchener to his first meeting of the Committee as a non-voting Parish Council representative.

68. URGENT ITEMS

There were no urgent items.

69. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

70. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

71. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

72. EXEMPT ITEMS

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

73. MINUTES OF THE MEETING HELD ON 19 NOVEMBER 2018

**RESOLVED:** That the Minutes of the meeting held on 19 November 2018 be approved as a correct record and signed.

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

- Following the Committee's suggestion, the Officers had now put a generic privacy notice for Councillors on the Council's website which they could refer to in the footer of their emails/letters etc. rather than having a whole privacy notice on their emails and other documents when they were collecting and processing personal data. Details had been circulated to Members earlier that day.
- Now that the vision, priorities and outcomes for the new Strategic Plan had been agreed by the Council, reports would be presented to Service Committees in January/February with specific actions and indicators relating to the different elements of the Plan.

74. QUESTIONS AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

75. COMMITTEE WORK PROGRAMME 2018/19

The Committee considered its work programme and whether any changes were required. The Head of Audit Partnership advised Members that the report relating to the risk management process would be presented to the meeting of the Committee scheduled to be held on 18 March 2019.

In response to a question by a Member, the Director of Finance and Business Improvement undertook to submit an update report on contract management to the meeting of the Committee scheduled to be held on 18 March 2019.

76. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

Mrs Estelle Culligan, Principal Solicitor – Contentious and Corporate Governance, presented her report providing an update on complaints received under the Members' Code of Conduct for the period 1 September 2018 to date.

It was noted that:

- Since the report to the Committee on 17 September 2018, there had been three new complaints from one complainant against three Parish Councillors relating to similar issues. These complaints had been concluded and the Monitoring Officer had found that there was no evidence of breaches of the Code of Conduct.

- There had also been three separate complaints against one Borough Councillor. Again, these complaints related to similar issues. Only one of these complaints was taken forward as the other two complainants did not respond to requests for further information. The investigation into the remaining complaint was still ongoing.

Mrs Culligan advised the Committee that:

- There seemed to have been an increase in the number of complaints from people about Parish Councillors generally and the Legal Services team had started to roll out some training in the hope that it might resolve some of the issues that arise. A member of the team had delivered training at Staplehurst and Tovil, and it had been fairly well received. It was the intention to continue to roll out the training to all Parish Councils.
- The training delivered so far had been based on issues to do with bullying and respect. Consideration was now being given to widening the training to talk more generally about the Code of Conduct; how it operates and what it covers.
- Training had been delivered at scheduled Parish Council meetings and a member of the team could attend a meeting of the Maidstone Area Committee of the Kent Association of Local Councils to talk in general terms about the type of complaints received and the reasons why they had or had not been progressed.
- It was the Monitoring Officer's responsibility, and that of her team working on corporate governance matters, to deal with Code of Conduct issues, and that could take any form. The outcome of the investigation of a complaint could be that the Monitoring Officer recommends and provides training, so it was decided to pre-empt that with a programme of training starting with those Parish Councils which had experienced Code of Conduct issues recently.

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

#### 77. HOUSING BENEFIT GRANT CLAIM

Mrs Liz Norris, Business Support Manager, introduced her report summarising the outcome of the work undertaken by Grant Thornton, the External Auditor, to certify the Housing Benefit Grant Claim submitted by the Council for the financial year 2017/18.

It was noted that:

- In terms of context the Revenues and Benefits Service carried out 63,000 housing benefit assessments during 2017/18 and the total value of the claim was £45.4m.
- When the initial testing was carried out 4 errors were identified which resulted in a requirement for further testing to be undertaken. The

additional work identified 7 more errors and, as a consequence, a qualification letter was issued by the External Auditor.

- The total value of the errors identified was £823 which, when extrapolated across the population of the claim, resulted in a total adjustment of £34,024 (0.07% of the total grant claim). Since this figure was considerably below the error threshold set by the DWP (0.48% of total expenditure), the Council had continued to receive 100% subsidy for this amount. Even after the adjustment, the total level of error in processing was 0.17% which was well below the threshold.
- New procedures and training had been put in place to reduce the instances of such errors occurring. The service also had a Quality Assurance process which enabled it to target these types of assessments and to correct any errors that did occur before they impacted on the customer or future grant claims.

In response to a comment by the Chairman that to achieve this level of accuracy given the complexity of the calculations was quite astounding, Mrs Norris confirmed that the rules governing Housing Benefits were very complex with different sets of rules depending on the circumstances of the claimant and the type of property involved.

**RESOLVED:** That the findings of the Housing Benefit Grant Claim audit undertaken by Grant Thornton and the actions taken and planned by the Revenues and Benefits Service in response be noted.

## 78. INTERNAL AUDIT CHARTER

Mr Rich Clarke, the Head of Audit Partnership, introduced his report setting out a refreshed Internal Audit Charter for 2019 onwards.

It was noted that:

- An Internal Audit Charter was a requirement of the Public Sector Internal Audit Standards. It was a foundational document setting out the purpose, authority and responsibility of the Internal Audit Service. The Committee approved the existing Charter in March 2016.
- It was generally considered good practice to review the document from time to time as Standards changed. Aside from some simplification of wording, removal of audit jargon and re-ordering of some sections to make the document more readable, the principal changes were:

The addition of a glossary of terms to clarify how particular terms in the Standards applied in a Maidstone Borough Council context;  
The inclusion of more detail on the International Standards and principles that applied to Internal Audit;

Clarification of the role of the Audit, Governance and Standards Committee as a key consultee before commissioning an external quality assessment; and  
The inclusion of reference to the need for an annual review.

In response to questions, Mr Clarke explained that:

- The Internal Audit Partnership recognised and aspired to achieve the mission of Internal Auditing provided by the Institute of Internal Auditors, but the reference to “organisational value” very much encompassed principles such as integrity, probity and ethics.
- An external quality assessment had to take place at least once every five years by a qualified, independent assessor from outside the organisation. The Audit Partnership’s most recent such assessment was by the Institute of Internal Auditors in the spring of 2015. The Committee would be a consultee in the process of commissioning the next assessment which was due in just over a year’s time.

**RESOLVED:** That the Internal Audit Charter, attached as Appendix 1 to the report of the Head of Audit Partnership, be approved.

79. TREASURY MANAGEMENT, INVESTMENT AND CAPITAL STRATEGIES 2019/20

Mr John Owen, Finance Manager, introduced his report setting out the draft Treasury Management, Investment and Capital Strategies for 2019/20. Mr Owen explained that:

- The Council had adopted the Treasury Management in Public Services: Code of Practice 2011 Edition (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- CIPFA had revised the 2011 edition of the Code in 2017 to ensure that local authorities also take into account the risks involved with non-treasury investments. The revised Code which would take effect in 2019/20 required local authorities to develop and approve an Investment Strategy and a Capital Strategy setting out the Council’s risk appetite and specific policies and arrangements for non-treasury investments.
- Treasury Management was concerned with keeping sufficient cash for the authority’s day to day running whilst the other Strategies focused on non-treasury investments and the Capital Programme with regard to the risks and funding. The Treasury Management Strategy had not changed from the previous year; the approach was to utilise cash balances rather than loan debt to finance the Capital Programme until such time that borrowing was required due to low investment returns and high counterparty risk in the current economic climate. The Capital Programme would be presented to the Policy and Resources Committee on 23 January 2019, and might be subject to amendments that would, in turn, change the funding profile.

- The Investment Strategy focused on how the authority assessed risks in relation to non-treasury investments including service loans to support local services and commercial investments (property investment to generate a profit).
- The Capital Strategy was a high level document linking the Medium Term Financial Strategy, the Treasury Management Strategy and the Investment Strategy together. It set out the long term context in which capital expenditure and investment decisions were made and considered risk, reward and impact on the achievement of the Council's priority outcomes identified within the Strategic Plan.

In response to questions, the Officers explained that:

- The figures set out in the report for capital expenditure were based on the latest bids for capital funding. As described in the Capital Strategy, a process had been followed over the last few months which had resulted in the previous five year Capital Programme being updated.
- To summarise, Service Managers submitted proposals in October to include projects in the Capital Programme. Bids were collated by the Corporate Finance Team which calculated the financing cost. Each Service Committee then appraised the proposals based on a comparison of corporate priorities. The Policy and Resources Committee would then consider and recommend the Capital Programme to the Council in February.
- Oversight of the Capital Programme was through the Policy and Resources Committee, and a report would be submitted to that Committee the following week developing the outline of the Capital Programme set out in the Medium Term Financial Strategy agreed by the Council in December 2018, reconfirming the principles behind the Council's Capital Strategy, explaining how the Capital Programme would be funded and describing the individual projects included in the Programme.
- The report would say that Capital Programme proposals had been developed reflecting the strategic priorities agreed by the Council and would show how they would be financed, whether from external sources, the Council's own resources or debt.
- Each investment was looked at individually to assess its affordability and the level of risk. In most cases capital investments had to pay for themselves and it was necessary to be satisfied that the investment would generate a sufficient return or there were sufficient revenue resources in place to justify the borrowing.
- Generally speaking, the larger capital investments like the developments under way at Brunswick Street and Union Street would pay for themselves in terms of expected sales or generating rent. However, there were some exceptions such as works required for



health and safety reasons where there would be no financial return such as the Mote Park Dam works. In these circumstances, it was necessary to be satisfied that there was sufficient capacity in the revenue budget to pay for that investment. Having looked at each element of the Capital Programme in this light, it was necessary to look at the overall size of the Capital Programme. Last year a Capital Programme of just over £75m over five years was agreed which was considered to be reasonable and appropriate given what the Council was trying to achieve.

- There were strong internal controls in place to make sure that the risk of money being spent outside budgetary controls was very low.
- Capital expenditure did tend to slip, and the Council would not borrow money that was not needed because of the Capital Programme slipping. Budget monitoring reports were submitted to the Policy and Resources Committee on a quarterly basis and spending plans were updated regularly so that if the Capital Programme was slipping, the Council would not embark on borrowing unnecessarily; instead, implementation of the Treasury Management Strategy would be adjusted accordingly.
- The operational boundary was the limit which external debt was not normally expected to exceed. The operational limit did not take into account temporary cash flow borrowing during the year. The authorised limit for external debt represented the limit beyond which external debt was prohibited and was no higher than the Capital Financing Requirement which was the most the Council would borrow at any one point in time if necessary.
- In terms of the funding of the Capital Programme, it was fairly straightforward to organise funding through the Public Works Loan Board (PWLB). The current 50 year PWLB rate was in the order of 3% which was quite reasonable.
- It was considered that, so long as there was no risk of interest rates rising quickly, the Council should not borrow until it needed to as the cost of borrowing was more than the cash would be earning and there were counterparty risks as well. The situation would be kept under review having regard to advice and guidance from the Council's Treasury Management Advisers, but it was unlikely that interest rates would rise in the short term.
- The Council had some limited discretion on what counted as capital expenditure; for example, assets costing below £10k were not capitalised and were charged to revenue in year. It made sense to have a de minimis figure, and this was kept under review.

During the discussion, the Director of Finance and Business Improvement confirmed that when this report was presented to the Committee in future, consideration would be given to including a summary and

explanation of terms to assist Members in their understanding of the documentation.

**RESOLVED to RECOMMEND to COUNCIL:** That subject to any potential amendments arising from the Policy and Resources Committee's consideration of the Capital Programme at its meeting on 23 January 2019, the Treasury Management Strategy for 2019/20, the Investment Strategy for 2019/20 and the Capital Strategy for 2019/20, attached as Appendices A, B and C respectively to the report of the Director of Finance and Business Improvement, be adopted.

#### 80. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

Mr Mark Green, the Director of Finance and Business Improvement, presented his report providing an update on the budget risks facing the Council.

Mr Green explained that:

- The two key risks highlighted in the report were continued uncertainty about future local government funding arrangements and the potential financial implications of a disorderly Brexit.
- The government had now published two consultation papers on the post 2020/21 funding regime. In summary, the early indications were that the trend for Maidstone (along with many other District Councils) towards dependence entirely on Council Tax and self-generated income from fees and charges etc. would continue, with no support from central government, and with minimal benefits from the business rates retention regime. Whilst there might be benefits from greater self-reliance, it also meant that the Council was more exposed to volatility in the wider economy. The risk arising from changes in local government funding was, therefore, considered to remain high.
- The financial impact of a disorderly Brexit for the Council would be two-fold. In the short term, disruption to transport would have major implications for service delivery with staff not being able to travel to work and congestion hampering services like refuse collection. Contingency planning was underway to address these risks, but there would be additional costs. The Council would look to recoup these costs from central government and Kent County Council was co-ordinating a bid for Kent.
- In addition there might be adverse longer term effects on the economy with a knock-on impact for local authorities. A no-deal Brexit could lead to a recession which would affect the Council in a number of ways, including a fall in business rates, increasing pressure on homelessness budgets and cuts in central government funding if tax receipts fell.

Arising from the discussion, Mr Green undertook to look again at Councillor Coulling's suggestion that a different methodology be used to

present the information clearly showing the three key risks and the probable monetary impact.

**RESOLVED:** That the updated risk assessment of the Budget Strategy, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted.

81. DURATION OF MEETING

6.30 p.m. to 7.40 p.m.

# Agenda Item 11

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

**18 March 2019**

### **Housing Benefit Grant Claim**

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

#### **Executive Summary**

The Committee considered the findings of the work undertaken by Grant Thornton to certify the housing benefit subsidy claim that the Council submitted for 2017/18 at its meeting on 14 January 2019. This report notes Grant Thornton's Certification Letter, which summarises their findings as reported to the Committee at its last meeting.

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

That the Housing Benefit Certification letter attached at Appendix A be noted.

#### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	18 March 2019

# Housing Benefit Grant Claim

## 1. INTRODUCTION AND BACKGROUND

- 1.1 Grant Thornton undertook work to certify the Housing Benefit grant claim for 2017/18. Their findings were reported at the committee's meeting on 14 January 2019.
- 1.2 Grant Thornton's certification letter is now attached at Appendix A.
- 

## 2. AVAILABLE OPTIONS

- 2.1 This report is provided for information only.
- 

## 3. RISK

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

## 4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 4.1 No consultation has been undertaken in relation to this matter.
- 

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

- 5.1 Next steps are outlined within Appendix A.
- 

## 6. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	Audit of the Council's Housing Benefit grant claim is part of the framework of financial controls that allows the Council to confidently progress its priorities.	Director of Finance and Business Improvement
<b>Risk Management</b>	See section 3.	Director of Finance and

		Business Improvement
<b>Financial</b>	The errors outlined in the Grant Thornton certification letter have no impact on the net value of the Council's claim and the level of error identified does not indicate any significant underlying control weaknesses. The additional audit fees incurred can be managed within existing budgets.	Director of Finance and Business Improvement
<b>Staffing</b>	None identified.	Director of Finance and Business Improvement
<b>Legal</b>	None identified.	Director of Finance and Business Improvement
<b>Privacy and Data Protection</b>	None identified.	Director of Finance and Business Improvement
<b>Equalities</b>	None identified.	Director of Finance and Business Improvement
<b>Public Health</b>	None identified.	Director of Finance and Business Improvement
<b>Crime and Disorder</b>	None identified.	Director of Finance and Business Improvement
<b>Procurement</b>	None identified.	Director of Finance and Business Improvement

## **7. REPORT APPENDICES**

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

- Appendix A: Grant Thornton Certification Letter
- 

## **8. BACKGROUND PAPERS**

None.

# **APPENDIX A**



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Director of Finance and Business Improvement  
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21 February 2019

Dear Mark

## Certification work for Maidstone Borough Council for the year ended 31 March 2018

We are required to certify the Housing Benefit Subsidy Claim submitted by Maidstone Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HBCOUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit Subsidy Claim for the financial year 2017/18 relating to the subsidy claimed of £45.4 million. Further details are set out in Appendix A.

We identified several issues from our certification work which we wish to highlight for your attention. Additional sample testing was completed in several areas, including some areas identified for the first time in 2017-18 in compliance with DWP's methodology. Full details of these areas and the issues identified can be seen in Appendix A.

The Council took on the completion of the additional work this year to minimise the cost of additional audit fees. However, when we received the completed work from the Council towards the end of November, we determined that the evidencing and documentation of the work was not sufficient to meet the DWP requirements. Consequently, some of the work had to be re-performed. This re-performance meant the DWP deadline of 30 November was not achieved. We certified the claim on the 14<sup>th</sup> of December 2018.

As a result of the errors identified, the claim was qualified, and we reported our findings to the DWP. The extrapolated financial impact on the claim from the errors found was £34k. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2017/18 for the Council was based on the final 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2017/18 was £11,418. This is set out in more detail in Appendix B. We have agreed an additional fee with Management for the extra work performed this year. This is still subject to approval by PSAA Limited.

Yours sincerely

*Grant Thornton UK LLP*

Grant Thornton UK LLP

## Appendix A - Details of claims and returns certified for 2017/18

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing Benefits Subsidy Claim	£45,445,821	Yes	£441	Yes	Qualification letter reported errors found in several areas, more details on which can be seen below.

### **Findings from Certification of Housing Benefits Subsidy Claim**

#### **Claimant Earnings**

In respect of Rent Allowances, our initial testing identified one case where the council had incorrectly calculated the claimant's applicable earnings, resulting in an overpayment of benefit. Under the HBCOUNT methodology, this required an additional 40 cases to be tested in this area. This additional testing identified four cases where benefit had been overpaid, leading to an extrapolated error of £33k. One further error was identified which generated an underpayment of benefit; this is not treated as an error for subsidy purposes.

#### **Classification of Overpayments**

From our work in previous years, we have identified issues with how the council classifies overpayments in respect of Rent Allowance cases. Whilst our initial testing of Rent Allowance cases did not identify any errors, our additional testing identified two cases where the overpayments had been incorrectly classified as an error due to the claimant, instead of the error correctly being classified as being caused by the council. These two misclassifications generated an extrapolated error of £835.

#### **Applicable Working Tax Credits**

Our initial testing on Rent Allowances identified one case where the council had calculated the incorrect Working Tax Credits to be applied to the claim, which generated an underpayment of benefit. As this type of error could also generate overpayments, we are required to perform additional testing. No further errors were identified from the additional testing performed, with no subsequent impact on the claim. We reported the finding to the DWP.

#### **Duplication of Benefit Award**

Our initial testing of Non-HRA Rent Rebates cases identified one case where the council had awarded benefit to the claimant on both a weekly and a monthly basis for a period during the course of the year, leading to an overpayment of benefit. The council ran a report to confirm that no further errors of this type had occurred during 2017-18 and posted an amendment in 2018-19 to correct the overpayment made.

#### **Missing Evidence of Water Rate Deduction**

We also identified a Rent Allowance case where the council was unable to evidence a water rate deduction applied to the claim, which went back a considerable number of years. As this error would only ever lead to an underpayment of benefit, no further work was required, but was reported to the DWP within our Qualification Letter.

#### **Recommended actions for officers**

We recommend that the Council, as part of its internal quality assurance process, should increase its focus or level of testing in respect of the areas where we identified errors from our testing. Under the HBCOUNT methodology, all of these areas will require additional testing in 2018-19 to determine whether the actions undertaken by officers have been successful in resolving the issues identified.

**Appendix B: Fees for 2017/18 Certification Work**

<b>Claim or return</b>	<b>2015/16 fee (£)</b>	<b>2017/18 indicative fee (£)</b>	<b>2017/18 actual fee (£)</b>	<b>Variance (£)</b>	<b>Explanation for variances</b>
Housing Benefits Subsidy Claim (BEN01)	£11,418	£11,418	£21,418	£10,000	The additional fee is subject to approval by PSAA Limited.
<b>Total</b>	<b>£11,418</b>	<b>£11,418</b>	<b>£21,418</b>	<b>£10,000</b>	

# Agenda Item 12

## **AUDIT, GOVERNANCE AND STANDARDS**

**18 March 2019**

### **Contract Management Update**

<b>Final Decision-Maker</b>	Audit, Governance and Standards
<b>Lead Head of Service/Lead Director</b>	Mark Green – Director of Finance and Business Improvement
<b>Lead Officer and Report Author</b>	Georgia Hawkes – Head of Commissioning and Business Improvement
<b>Classification</b>	Public
<b>Wards affected</b>	All

#### **Executive Summary**

This report details progress on the planned improvements to contract management, following an internal audit review completed in November 2018.

#### **This report makes the following recommendations to Audit, Governance and Standards Committee**

1. That the progress to improve contract management corporately be noted.

#### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	18 March 2019

# Contract Management Update

## 1. INTRODUCTION AND BACKGROUND

- 1.1 The Council outsources a number of its services, including management of Maidstone Leisure Centre and its waste and recycling service. These outsourced arrangements have to be monitored and managed to ensure that the services are being delivered to the specified level and that the envisaged outcomes are being achieved. The monitoring of these different contracts is done by the relevant service area, as opposed to a central team. The exception to this is the leisure and culture contracts (Hazlitt, Maidstone Leisure Centre, Kent Life, Cobtree golf course and the cafés) which are all monitored by the Contracts and Compliance Officer – Leisure and Culture role, a role which sits in the portfolio of the Head of Commissioning and Business Improvement. This role was transferred into the central team in 2017 and strengthened by increasing the responsibilities and grade from the previous Monitoring Officer role.
- 1.2 The Head of Commissioning and Business Improvement has previously reported to this committee on contract management arrangements and planned improvements in September 2017 and November 2018. The most recent report in November 2018 advised committee that the Council's highest value contracts are being well managed, as confirmed by Internal Audit reports carried out for each of the highest risk contracts. However, the report also highlighted that an internal audit report of contract management controls completed in November 2018 had returned a Weak level of assurance rating and concluded that, whilst there was clearly good practice in the management of the leisure and culture contracts, improvement was required corporately.
- 1.3 Since November 2018, the following actions to improve contract management have been delivered:
- Standard contract documents have been created by Mid Kent Legal Services and put on the intranet for all officers to use. This ensures that Council officers use the Council's contracts and protects the Council from officers unwittingly entering into contracts proposed by suppliers that are disadvantageous to the Council.
  - The Procurement and Legal teams have undertaken training with the Property Services team to improve the understanding of procurement processes and contract preparation.
  - As part of the procurement plan for purchases of goods, services and works above £75k, an assessment must be carried out of the risks associated with entering into the contract. This ensures that consideration is given to the method of procurement, the solution being procured, the questions and requirements in the tender document, and the contract management required, in order to mitigate the risks identified.
  - The contracts register has been updated with the details of all contracts that the central Procurement team have been involved with procuring.

- Quarterly spend analysis is being undertaken by the Procurement team to ensure contracts are in place where they should be.
  - A risk and management actions for contract management has been drafted for inclusion in the Council's corporate risk register
- 1.4 The Contracts and Compliance Officer – Leisure and Culture post holder, who left the Council in January, actually returned to the Council a few weeks later to take up this role again. This is very positive as this officer is extremely well thought of and has implemented a number of improvements since they first started with the Council in September 2017.
- 1.5 In addition, the following new temporary staffing arrangements have been put in place to ensure there is more staff resource available to deliver the actions required to address the findings of the internal audit report and improve contract management across the Council:
- The Contracts and Compliance Officer – Leisure and Culture has temporarily taken on additional responsibilities for 3 months from March 2019 to deliver improvements in the corporate control of contract management. An additional temporary staff resource is being recruited to ensure that the monitoring and management of the leisure and culture contracts does not suffer.
  - From 1 April, the full substantive role of the Procurement and Contracts Manager will be covered on a temporary basis until 31 December. The substantive structure of the Contracts and Procurement team is shown at Appendix A. Currently, the interim structure is that only an Interim Procurement Manager is in place. This new temporary arrangement will allow further exploration of potential closer working opportunities with other Councils whilst ensuring that there is additional resource and oversight given to contract management arrangements at a management level.
- 1.6 Looking at the longer term, consideration is currently being given to whether a permanent role covering the corporate elements of contract management – including ensuring good practice in the management of delivery of contracts as well as oversight of the use of contract documents – is required.
- 1.7 The additional staff resource being put into improving the corporate oversight of contract management means that, by the end of May 2019, the following actions will have been delivered, or substantial progress made towards achieving any that have not been completed:
- Introduce corporate contract management guidance – to include guidance on performance compliance monitoring, how to seek value for money from current contracts, risk management for the contract lifecycle etc
  - Deliver training on good contract management and the new guidelines
  - Identify any additional training needs for contract managers across the Council

- Introduce improved processes for better central procurement and contract document oversight and control e.g. Procurement team to be involved in procurements above £25K (currently the team are only involved in procurements above £75k)
- Set up a network of contract managers from across the organisation
- Introduce a process for identifying, recording and disseminating lessons learned
- Review all existing key contracts to confirm exit plans are a requirement and are in place
- Introduce a central digital repository for completed and signed contract documents
- Create summary documents for key contracts which contain the important elements of the contracts. These can then be used to ensure a smooth handover if a contract manager changes part-way through the contract

1.8 Therefore, there has been positive progress in improving the corporate management and oversight of contract management across the Council, and the majority of issues found in the internal audit review of contract management will have been addressed within the next 3 months.

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

2.1 The Committee should note the contents of the report, including the improvements already delivered (paragraph 1.3) and the planned actions detailed in paragraph 1.7.

## **3. RISK**

3.1 This report is presented for information. The completed and planned actions detailed in the report mitigate the risk that the Council is not managing contracts properly and that outsourced services are not delivering the level of service required.

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

4.1 Audit, Governance and Standards Committee has previously received updates on contract management across the Council in September 2017 and November 2018.

## **5. CROSS-CUTTING ISSUES AND IMPLICATIONS**

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	The changes detailed in this report are unlikely by themselves to materially affect	Head of Commissioning and Business

	achievement of corporate priorities. However, they will support the Council's overall achievement of its aims through ensuring outsourced services deliver what is required.	Improvement
<b>Risk Management</b>	Covered in section 3.	Head of Commissioning and Business Improvement
<b>Financial</b>	There is an additional cost to bringing in external resource support the Contracts and Compliance Officer – Leisure and Culture whilst this role takes on additional corporate responsibilities. A budget has been identified to meet this cost.	Section 151 Officer  Senior Finance Manager (Client Accountancy)
<b>Staffing</b>	We will need access to extra expertise to deliver the recommendations in a timely manner.	Head of Commissioning and Business Improvement
<b>Legal</b>	The actions detailed will help the Council meet its obligations under the Local Government Transparency Code 2015. MKLS is keen to assist with any further training requirements, creating and maintaining a central repository of all contracts and with assessing risk both before the contract is signed and during its term. Another benefit of proper contract management should be the avoidance of litigation.	Contracts and Commissioning Team Leader
<b>Privacy and Data Protection</b>	No impact.	Contracts and Commissioning Team Leader
<b>Equalities</b>	An equalities impact assessment will be completed in conjunction with the formulation of the new contract	Equalities and Corporate Policy Officer



	management guidelines	
<b>Public Health</b>	We recognise that the actions to improve contract management will not negatively impact on population health or that of individuals.	Head of Commissioning and Business Improvement
<b>Crime and Disorder</b>	No impact.	Head of Commissioning and Business Improvement
<b>Procurement</b>	No impact.	Head of Commissioning and Business Improvement  Section 151 Officer

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## 6. REPORT APPENDICES

Appendix A – substantive structure of Procurement and Contracts team

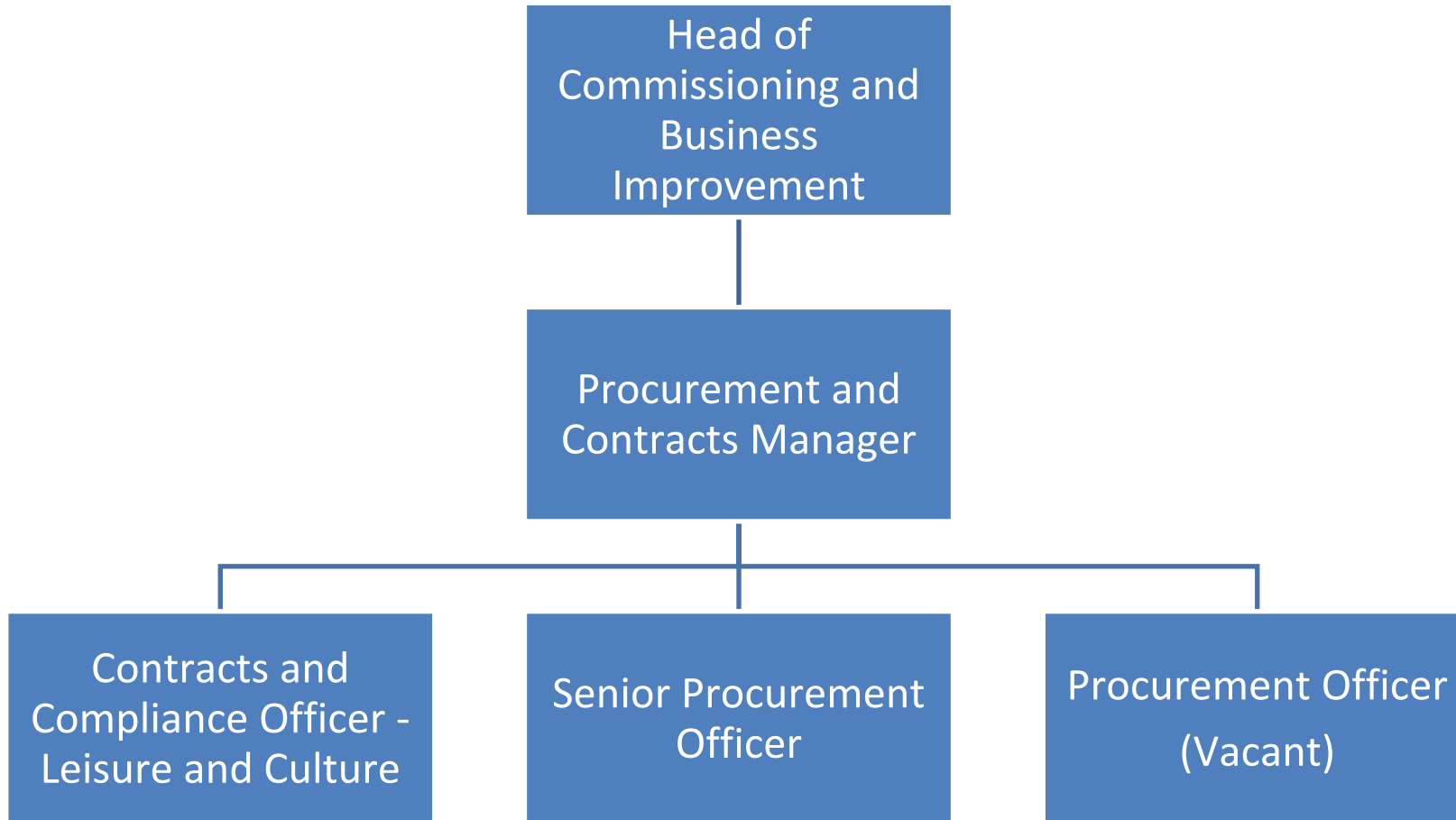
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## 7. BACKGROUND PAPERS

Contract Management report – Audit, Governance and Standards 18/9/17  
<https://meetings.maidstone.gov.uk/documents/s56824/Contract%20Management.pdf>

Contract Management update – Audit, Governance and Standards 19/11/18  
<https://meetings.maidstone.gov.uk/documents/s63436/Commissioning%20and%20Procurement%20Strategy.pdf>

**Appendix A - Substantive Procurement and Contracts Structure**



## AUDIT, GOVERNANCE & STANDARDS COMMITTEE

**18 MARCH 2019**

### Internal Audit & Assurance Plan 2019/20

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

#### Executive Summary

This report sets out the proposed plan for Mid Kent Audit’s work at Maidstone Borough Council during 2019/20. Furthermore, it provides an overview of the range of areas for potential future examination by Internal Audit. It is based on the outcomes of risk assessments and consultation, and considers the resources available to the partnership.

The report also sets out the principles that will guide the External Quality Assessment of the audit service, due before the end of 2019/20.

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

1. That the Internal Audit & Assurance Plan for 2019/20 be approved.
2. That the Head of Audit Partnership’s view that the Partnership currently has sufficient resources to deliver the plan and a robust Head of Audit Opinion be noted.
3. That the Head of Audit Partnership’s assurance that the plan is compiled independently and without inappropriate influence from management be noted.
4. That the proposed criteria for commissioning an External Quality Assessment of the audit service later in 2019/20 be noted.

#### Timetable

<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	18 March 2019

# Internal Audit & Assurance Plan 2019/20

## 1. INTRODUCTION AND BACKGROUND

- 1.1 The Public Sector Internal Audit Standards (the "Standards") require an audit service to produce and publish a risk based plan, at least annually, for approval by Members. The plan must consider input from senior management and Members.
- 1.2 In Mid Kent Audit, planning is a continuous activity but we began the programme working towards the 2019/20 plan document in late 2018. The paper here sets out the plan and project list intended for 2019/20 for Member approval.
- 1.3 The Standards set out the requirements that a Head of Audit must meet in setting out the plan. We refer to relevant sections from the Standards in the appendix to this report.
- 1.4 To note, audit plans must be at least annual but can have shorter timescales if needed. Also, the Standards explicitly direct that Head of Audit must keep the plan flexible and responsive to emerging and changing risks across the year.
- 1.5 2019/20 also marks five years since our last External Quality Assessment. This means we must commission a new assessment during this year. The plan document sets out a proposed approach for commissioning the assessment. Noting this Committee as a key client for the assessment, we also seek the Committee's view on how we should undertake that commission.

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## 2. AVAILABLE OPTIONS

- 2.1 The Standards mandate compiling a risk based plan for management comments and Member approval. Although by convention that plan is presented annually around the start of the financial year, the Standards do not specifically require that action. The Council could, potentially, move to a shorter planning cycle which would allow more flexibility for responding to risk. There are other authorities that take a similar approach (Suffolk CC, to name one example).

- 2.2 However, that move would strike against a practice considered to work well, and one which allows a degree of certainty to resource requirements that helps ensure stability in a service spread across four authorities.
  - 2.3 The Standards do not mandate any specific work for the plan, so its content is entirely at the discretion of the internal audit provider (subject to the comments of management and approval of Members) and have an enormous range of possibilities with respect to the areas that could be examined. The attached document represents the currently proposed responses to the risks assessed.
- 

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

- 3.1 The appendix sets out the proposed plan for 2019/20, including background details on how we compiled the plan and how we propose to manage its delivery.
  - 3.2 We confirm to Members that, although the plan has undergone broad consultation with management, it is compiled independently and without being subject to inappropriate influence.
- 

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

- 4.1 We circulated an earlier, longer, draft to Heads of Service and Directors and held individual meetings to discuss proposed projects in their areas. Those meetings have now taken place and the attached represents an adaptation of the original draft reflecting comments received.
  - 4.2 The overall resource allocation between the partners is consistent with the collaboration agreement and discussed with the Shared Service Board.
- 

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

- 5.1 If approved, we will begin work on the plan in late April, working towards delivering a Head of Audit Opinion in early summer 2020.
-

## 6. CROSS-CUTTING ISSUES AND IMPLICATIONS

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	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.	Head of Audit Partnership 6 March 2018
<b>Risk Management</b>	No significant implications.	
<b>Financial</b>	The proposals set out in the recommendation are all within already approved budgetary headings and so need no new funding for implementation.	
<b>Staffing</b>	We will deliver the recommendations with our current staffing.	
<b>Legal</b>	Accepting the recommendations will go towards fulfilling the Council's duties under the Accounts & Audit Regulations.	
<b>Privacy and Data Protection</b>	No significant implications.	
<b>Equalities</b>	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	
<b>Public Health</b>	No significant implications	
<b>Crime and Disorder</b>	No significant implications	
<b>Procurement</b>	No significant implications.	

### REPORT APPENDICES

- Appendix 1: Internal Audit & Assurance Plan 2019/20

### BACKGROUND PAPERS

The appendix includes reference to the Public Sector Internal Audit Standards (full document [at this link](#)). Further background papers, including detailed resource calculations, risk assessments and notes from consultation meetings can be made available on request.

# **APPENDIX 1**

# **Internal Audit & Assurance Plan 2019/20**

## **Maidstone Borough Council**





# MID KENT AUDIT

## Introduction

1. We provide an independent and objective assurance and consulting service designed to add value to and improve the Council's work. We help the Council achieve its objectives by bringing a systematic and disciplined approach to evaluate and improve effectiveness of risk management, control and governance.
2. We work within statutory rules drawn from the Accounts and Audit Regulations 2015 and the [Public Sector Internal Audit Standards](#) (the "Standards"). In 2015 the Institute of Internal Audit (IIA) assessed us as working in full conformance with the Standards. We have kept full conformance since then, including through the major update to the Standards in 2017.
3. Over the next year we must commission an External Quality Review as five years have passed since our last assessment. We discuss the assessment need further later in this report.
4. We also work to an [Audit Charter](#) agreed at each partner authority. The *Charter* sets out the local context for audit, including independence safeguards. At this Council, the Audit, Governance & Standards Committee approved the Charter in January 2019.
5. The Standards set out demands on the Head of Audit Partnership for compiling and presenting a document to describe planned work for the year ahead. The plan, presented for Member approval, must set out:
  - Internal audit's evaluation of and response to the risks facing the organisation.
  - How we consult with senior management and others.
  - How we have considered whether we have suitable resources to address the risks we identify.
  - How we will effectively use those resources to complete the plan.
6. The Plan can include assurance and non-assurance rated engagements. This means we can accept consultancy work where this is the best way to support the Council. We set out considerations for accepting such engagements in the *Audit Charter*.
7. We must also clarify that our audit plan cannot address all risks across the Council and represents our best use of invariably limited resources. In approving the plan, the Committee recognises this limit. We will keep the Committee abreast of any changes in our assessment of need as we oversee the risks posed to the Council. In particular we will undertake a full evaluation of need during each annual planning round.

# MID KENT AUDIT

## Risk Assessments

8. The Standards direct us to begin our planning with a risk assessment. This assessment must consider risks both from global changes and within the Council. We must also keep our risk assessment current. This plan represents our conclusions now, but we will continue to reflect and consider our response as risks and priorities change across the year. We will report a specific update to Members midway through the year. We may also consult the Committee (or its Chairman) on other significant changes if the need arises.

## Global and Sector Risks

9. In considering global and sector risks we draw on various sources. This includes updates provided by relevant professional bodies, such as the Institute of Internal Audit (IIA) and CIPFA. We also consult with colleagues both direct through groups such as London and Kent Audit Groups and through review of all other published audit plans in the South East.
10. These sources give us insight into both the key issues facing local government and how audit teams respond. To show our thinking on these global risks we've highlighted below some of the issues discussed by the IIA in [Risk In Focus 2019](#).



## CYBERSECURITY: IT GOVERNANCE & THIRD PARTIES

### The Risk

Cybersecurity has been a high-priority risk for many years and this shows no signs of subsiding. Companies are pushing to move away from legacy systems. As approaches to managing cyber risk mature, attention is turning to third-party defensibility.

### Maidstone Context

Mid Kent's ICT strategy makes great use of the 'cloud'. For example the current rollout of Microsoft Office 365 across the authority. Increasingly, individual services are also relying on software hosted by suppliers outside the Council's direct control; Internal Audit with *Pentana* being just one example.

# MID KENT AUDIT

## Mid Kent Audit Response – Cybersecurity & Third Parties

We are now in the second year as members of the Apex Framework; a large professional services contract managed by LB Croydon. This gives us immediate access to specialist and general support at set rates. In 2019/20 we plan to use that specialist support to help look specifically at how our IT service can draw assurance where third parties hold and manage our data and services via our networks.



## ANTI-BRIBERY & ANTI-CORRUPTION COMPLIANCE

### The Risk

Anti-bribery and corruption risk is longstanding. However, national legislative reforms, coordinated global enforcement by regulators and record-breaking fines are raising the stakes and pushing this issue to the top of the corporate agenda.

### Maidstone Context

The IIA report reflects updated legislation across the world, notably in China, Brazil, France and Spain. While this subject is settled in UK law with the Bribery Act 2010, in Maidstone in 2019 we may see several new Members. They will need an understanding of how the rules work within the Public Sector.

### Mid Kent Audit Response

In our plan for 2019/20 we aim to develop and deliver anti bribery training materials, aimed first at Members and key officer subjects. This training will explain the law, the Council's policy and how we expect people to respond to any concerns on corrupt practices.

# MID KENT AUDIT



## A NEW ERA OF TRADE

### The Risk

The IIA's description of this risk highlights protectionist trade tariffs between the USA and China as well as increasing trade sanctions. However, in the UK, this risk touches on Brexit and how UK trade might look in 2019/20 and beyond.

### Maidstone Context

The Council's risk register recognises the threats to the Council's income and Maidstone's economy through broader economic changes. Maidstone is, like all Kent Councils, also vulnerable to issues arising from any significant traffic issues cause by delays at ports and the channel tunnel.

### Mid Kent Audit Response

The daily changing outlook on Brexit makes including any specific work on that topic in our annual plan a difficult task. However in 2019/20, as in previous years, we have set aside a consultancy budget to deal with emerging issues. Also, audit standards demand we keep our wider plan flexible in the face of developing risks.



## AUDITING THE RIGHT RISKS: TAKING A GENUINELY RISK-BASED APPROACH

### The Risk

There is a notable inconsistency in the IIA's surveys between organisations' priority risks and where internal audit focuses its time. Chief Audit Executives should therefore re-evaluate with their audit committees whether internal audit works effectively to deliver sound risk-based assurance.

### Maidstone Context

The Council sets out its corporate risks clearly in regular reporting to Senior Officers and Members.

# MID KENT AUDIT

## Mid Kent Audit Response (Auditing the Right Risks)

We seek to draw on the Council's risk information to help us compile and check our planning. Without neglecting more 'routine' matters, we aim to give due weight to corporate risks and add assurance where we can.

## Local Risks

11. The Council compiles and surveys a set of Corporate Level Risks. These cover matters that threaten the Council's overall objectives, either because of their severity or the breadth of impact across several services.
12. The Council is currently compiling a new set of Corporate Level risks following a risk workshop earlier in the year. We have included within our planning the risks discussed at that workshop.

## Audit Risk Review and Consultation

13. We also conduct our own risk assessment looking across all relevant parts of the Council (the "audit universe"). This risk assessment differs from the Council's own risk approach in that we consider one specific risk:

*What is the risk we offer a mistaken opinion because we don't understand the service?*

14. There are two main parts to considering this risk. The first how important the service is to the Council's overall objectives and controls. Here we consider:



**Finance Risk:** The value of funds flowing through the service. High value and high volume services (such as Council Tax) represent a higher risk than low value services with regular and predictable costs and income.



**Priority Risk:** The strategic importance of the service in delivering Council priorities. For example waste services will be higher risk owing to the direct link with the Council's objectives.



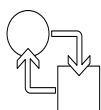
**Support Service Risk:** The extent to which other services rely on effective function of this part of the Council. For example, many services have a strong reliance on continuing effective IT services.

# MID KENT AUDIT

15. The second part is the likelihood we might hold (or gain) a mistaken view of the service. Here we consider:



**Oversight Risk:** Considering where other agencies have an interest in regulating and inspecting the service. For example, Mid Kent Legal Services receive regular inspections from the Law Society to keep Lexcel accreditation and so have relatively low risk.



**Change Risk:** Considering the extent of change the service faces, or has recently experienced. This might be voluntary (a restructure, for example) or imposed (like new legislation).



**Audit Knowledge:** What do we know about the service? This considers not just our last formal review, but any other information we have gathered from, for example, following up agreed actions. We also consider the currency of our knowledge, with an aim to conduct a full review in each service at least every five years if possible.



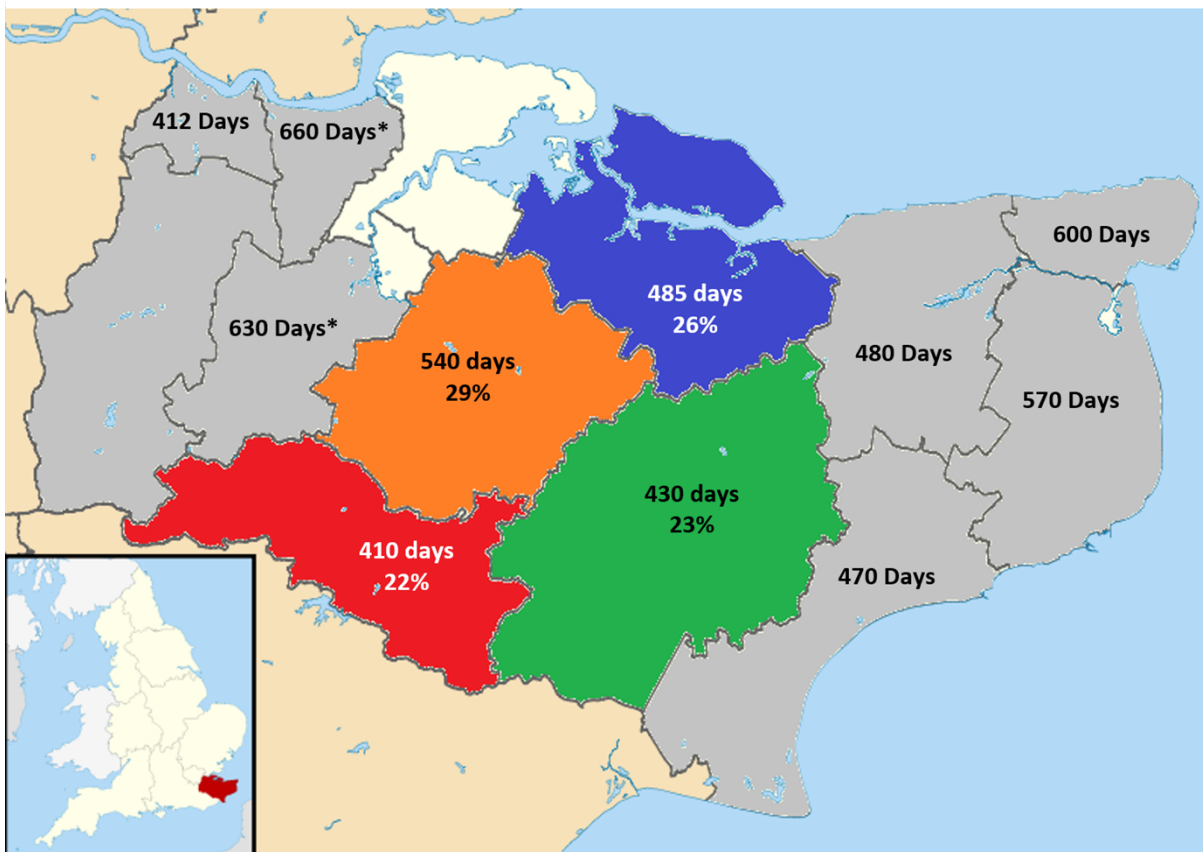
**Fraud Risk:** The susceptibility of the service to fraud loss. High volume services that deal direct with the public and handle cash, such as licensing for example, are higher risk.

16. The results of these various risk assessments provide a provisional audit plan. We then take this provision plan out to consultation. We meet every Head of Service, Director and the Chief Executive to get their perspective on our assessment and give us updates on their sections.
17. Having gained a perspective on the key issues for audit attention in the coming year we then consider the quantity and quality of our resources.
18. We set out the full results of the risk assessment on the audit universe in Appendix I.

# MID KENT AUDIT

## Resources

19. The audit team is in consultation phase of a planned restructure. We aim to have the new structure in place by 1 April 2019. Currently, though, there is a degree of doubt on the precise extent and arrangement of the team. Please see appendix II for more information on our restructure.
20. However, our planning estimate for 2019/20 says we will likely have available **1,865** days across the partnership. This is a modest (2.5%) increase on 2018/19 total. The most significant variance being we are now using our new audit software, Pentana. We have been using Pentana now since July 2018 and ended the implementation phase in January 2019. We look now to its benefits in adding greater efficiency and quality to our work.
21. The total number of days divides between authorities in the proportions set out in our collaboration agreement:



Data from outside Mid Kent drawn from 2018/19 audit plans. Note that direct comparisons are difficult because what each authority asks of its Internal Audit service differs. In particular authorities with \* mark run a combined audit and counter fraud service. However, this illustration serves as an indicative look at internal audit resource levels across Kent to offer assurance that levels in Mid Kent are consistent with delivery of a robust and effective service.

# MID KENT AUDIT

22. Audit Standards demand we assess whether the resources available – in both quantity and capability – can fulfil our responsibilities. In that assessment we must consider:
- Whether we had enough resource to complete our prior year plan.
  - How the size and complexity of the organisation has changed.
  - How the organisation’s risk appetite and profile have changed.
  - How the organisation’s control environment has changed, including how it has responded to our audit findings.
  - Whether there have been significant changes to professional standards.
23. Based solely on those internal reasons, we believe we have enough resource to deliver the 2019/20 plan. There is no precise guidance on overall adequacy of internal audit resource. However, as in previous years, we have reviewed provision at other authorities. In Kent, we show that comparison in the map above. We also compare resources through contacts in London Audit Group and beyond. Through the Internal Audit Standards Board, we also consider comparative resourcing in central government, health and the private sector. For example, the table below sets out research conducted by KMPG on the typical size of internal audit services in listed companies across the world:

Type	IA FTE	IA Costs	IA as % Revenue
Company (<\$500m turnover)	4.5 to 7.2	\$613k to \$819k	0.30% to 0.37%
Company (\$500m-\$1b turnover)	5.0 to 7.4	\$737k to \$908k	0.10% to 0.13%
<b>MBC (£91.6m gross cost of services)<sup>1</sup></b>	<b>3.3</b>	<b>£206k</b>	<b>0.22%</b>

24. We must also consider ability of the audit team. The team as a whole now has more formal qualifications than ever before. Ben Davis, previously a Trainee Auditor in the Partnership, qualified with CIPFA in summer 2018 and three others have progressed to the final stage in IIA qualifications. Appendix II sets out how our restructure aims to continue developing the skills of the team.
25. Beyond direct employees, we have also sought access to sources of specialist expertise. In particular, we have used this to supplement our IT audit work. We will continue in 2019/20 to access this support through memberships of Framework agreements with audit firms managed by LB Croydon and Kent CC.

<sup>1</sup> Based on Maidstone BC’s 29% share of the partnership



# MID KENT AUDIT

## Proposed Audit & Assurance Work 2019/20

26. Our audit project work comes in two distinct approaches; those that lead to assurance ratings and those that do not. We usually provide a rating as shorthand to describe our findings and the assurance that we can offer. See Appendix IV for the definitions and different levels. However, we recognise circumstances where our work aims principally at supporting work in progress, or providing advice where an assurance rating is not right. We complete full reports for each type and will provide summaries in our reporting to Members.
27. We also undertake various other review and advice tasks over the year. However, we usually do not separately report work that takes under 5 days to complete or does not result in a single distinct report. For example, our work supporting the Council's risk management.
28. In the tables below we set out our planned work for 2019/20. We also provide our planning objectives for each project, setting out in more detail the intended scope for each review. However, we will agree a precise scope with the officer *Audit Sponsor* when we come to undertake the work. See the next section of this report for information on how we complete detailed planning on audit projects and work towards their completion.

<b>Proposed Audit &amp; Assurance Project Work 2019/20</b>	<b>331 days</b>
<b>DIRECTOR OF FINANCE &amp; BUSINESS IMPROVEMENT</b>	
<b>High Priority Projects (aim to complete 100% during 2019/20)</b>	
<b>Information Management</b>	
<ul style="list-style-type: none"><li>• To follow up from cross-authority advisory work on GDPR in spring 2019.</li><li>• To also consider other aspects of information management, such as responding to Freedom of Information requests.</li></ul>	
<b>Medium Priority Projects (aim to complete 50% during 2019/20)</b>	
<b>Budget Setting</b>	
<ul style="list-style-type: none"><li>• To review controls in place around setting the annual budget.</li><li>• To consider specifically controls for ensuring achievability of savings projections.</li></ul>	
<b>Business Continuity</b>	
<ul style="list-style-type: none"><li>• To consider arrangements for ensuring business continuity.</li><li>• To consider, as areas for possible specific focus, Brexit planning or IT support.</li></ul>	

# MID KENT AUDIT

## Medium Priority Projects (aim to complete 50% during 2019/20)

### Creditors (Corporate Credit Cards)

- To review controls for compliance with corporate credit card policy.

### Customer Services

- To consider the service following transformation review in early 2019.

### General Ledger

- To consider controls around GL journals and data quality from feeder systems.

### Health & Safety

- To consider corporate conformance with second level HSE requirements.

### Members' Allowances

- To review controls for accurate payment of Member allowances and expenses.
- To consider 2019 policy changes proposed by Independent Remuneration Panel.

### Social Media

- To consider policy update due during 2019.
- To review protocols for dealing with public enquiries received by social media.

### Subsidiary Company Governance

- To consider the Council's controls for overseeing Maidstone Property Holdings, in the light of separate independent advice to be received by the Council.

### Treasury Management

- To review controls governing treasury activities (including borrowing).

## DIRECTOR OF REGENERATION & PLACE

## High Priority Projects (aim to complete 100% during 2019/20)

### Civil Parking Enforcement

- To review operation of new contract beginning during 2019.
- To consider income reconciliation.

### Developer Contributions

- To review controls around monitoring collection and use of developer income from sources such as s106 agreements.
- To review conformance with October 2018 Community Infrastructure Levy policy.

### Planning Conditions

- To consider how the Council ensures discharge of planning conditions.

### Waste Crime Team

- To consider outcomes of team trial period ending late 2019/20.

## Medium Priority Projects (aim to complete 50% during 2019/20)

### Community Protection Team

- To consider controls for recording and responding to complaints from the public across the team's work (except stray dogs and pest control, which were examined separately in 2018/19).

# MID KENT AUDIT

## Medium Priority Projects (aim to complete 50% during 2019/20)

### Economic Development

- To review controls for effective spend of economic development income.
- To potentially review specific capital projects, to be scoped with officers.

### Parks

- To consider controls for ensuring success of management plan for parks across the Borough, focussing away from Mote Park.

### Residents' Parking

- To review controls around residents' parking schemes.

## MID KENT SERVICES DIRECTOR

## High Priority Projects (aim to complete 100% during 2019/20)

### IT Network Security

- To consider arrangements for securing the Council's IT networks, with possible particular emphasis on cloud computing and other third party arrangements.

### IT Technical Support

- To consider processes for supporting IT use in the Council.
- To also consider rollout of specific developments, such as Windows 365.

### Recruitment

- To consider controls around recruitment, including appropriate safeguarding checks and legal compliance.
- To possibly consider apprentice recruitment and use of the apprenticeship levy.

### Universal Credit

- To review controls managing the Council's work in supporting Universal Credit rollout in the borough.

## Medium Priority Projects (aim to complete 50% during 2019/20)

### Council Tax

- To consider arrangements for Council Tax billing.
- To consider particularly controls around increasing digitalisation of applications.

### Discretionary Housing Payments

- To review processing DHP claims, including consistency in decision making.

### IT Asset Management

- To review controls on asset management, especially tracking and security for portable devices.

### IT Backup & Recovery

- To review controls for periodic IT backups and test arrangements for recovery.

# MID KENT AUDIT

## Medium Priority Projects (aim to complete 50% during 2019/20)

### IT Project Management

- To review how IT supports services in delivering projects, including managing its workload.

### Planning Administration

- To examine controls for income collection and reconciliation.

### Workforce Planning

- To consider how the HR service supports the Council in identifying and planning its strategic workforce requirements.

## Proposed Assurance Non-Project Work 2019/20

159 days

### Risk

- Updating and reviewing Risk Framework
- Regular monitoring and reporting to Senior Officers and Members
- Review of risk identification and reporting within project management
- Member briefings, especially for new Members in 2019

### Counter Fraud

- General Policy and Advice, including Whistleblowing and Anti-Corruption
- Fraud Risk Assessment, focusing on payroll and expenses
- Incident specific advice, support and reactive investigation
- Training and development, including for new Members in 2019. Potential subject of focus being on Bribery Act 2010 duties.

### Member Support

- Attendance and preparation for Audit, Governance & Standards Committee and other Members' meetings (including Chairman's briefings).
- Developing and presenting Member briefings on governance issues.

### Agreed Actions Follow Up

- Ensuring officers carry out actions as agreed.
- Reporting progress towards implementation to Senior Officers and Members.

### Audit Planning

- Keeping the 2019/20 plan and attendant risk assessments under review.
- Developing audit planning for 2020/21 and beyond.

# MID KENT AUDIT

## Proposed Unallocated Contingency 2019/20

50 days

### Consultancy

- We aim to keep around 10% of audit days as a consultancy fund to provide general and extra advice to the Council.
- This will include attendance and contribution to officer groups and expansions to audit scopes to cover particular concerns or interests.
- It also covers any investigative work we undertake. We are named in the Council's whistleblowing, data protection and computer use policies as a potential investigator of matters referred to us.

# MID KENT AUDIT

## Delivering the Audit & Assurance Plan

29. We work in full conformance with the Public Sector Internal Standards. This includes having an internal quality assessment approach comprising both specific review of individual projects and periodic 'cold review', looking back at completed work and taking forward learning to help us improve.

## Overseeing Delivery

30. We will report progress on delivering the plan to this Committee part-way through the year. We are also part of the Mid Kent Services Directorate and overseen by a Shared Services Board, with Mark Green (Director of Finance & Business Improvement) as Maidstone's representative.
31. We also report each month on various performance indicators detailing our progress and provide quarterly updates to the Strategic Management Team. We include a listing of those indicators, with descriptions, at appendix III to this plan.

## Quality & Improvement Plan

32. Although in 2015 the IIA assessed us as fully conforming to the Standards, we have continued to challenge and update how we work. Through these types of review we have kept our full conformance with the Standards and increased productive days by nearly 20% since 2015 without any more than inflationary budget increase.
33. We successfully set up our new Audit Management Software – Pentana – during 2018/19. The whole team now use Pentana to deliver our work and we can see the benefits already in quality and efficiency. There is also a significant improvement in how we can manage and organise our planning. For example, Pentana supports comprehensive risk assessments set out in Appendix I. We also have a greater capacity to 'prioritise' subjects to allow more flexibility as plans change through the year.
34. For 2019/20 our focus for quality and improvement will be on:
  - Continuing to support and strengthen the team's use and understanding of Pentana's audit approach, especially its consistent focus on an Objective -> Risk -> Control -> Test method. Over time, following this approach will deliver a comprehensive understanding of the control environment across the whole authority and lead to significant efficiencies in planning future work.

# MID KENT AUDIT

- Exploring how best to open Pentana to officers outside audit. The software has a web module that allows officers outside audit to pass information to us direct, for instance updates on progress towards carrying out agreed actions. We hope to pilot some methods for rolling out this feature during 2019/20, mindful of the need to be efficient in our call on officers' time as well as effective management of audit resources.
- Considering how to continue improving our reporting. Pentana allows for many different variants of our reporting tailored suitably to different audiences. In 2019/20 we will explore how we can efficiently use this flexibility to make our reporting have maximum impact in supporting services to improve.

## External Quality Assessment

35. Public Sector Internal Audit Standard 1312 demands we undergo an external assessment at least every five years. The IIA undertook our last assessment, in spring 2015, that reported Mid Kent Audit as fully conforming to the Standards. This means our next review must take place by spring 2020. The full text of the Standard is below:

### 1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

#### *Interpretation:*

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the *Code of Ethics* and the *Standards*; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

#### **Public sector requirement**

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, eg the accounting/accountable officer or chair of the audit committee as well as with the external assessor or assessment team.

36. The Standard, and our Charter, both highlight the role of the "Board" (this Committee) in oversight of the assessment. Specific responsibility for its arrangement rests with the Head of Audit.

# MID KENT AUDIT

37. We will set out specific proposals for the assessment later in the year. Currently, our plan considers the following principles.
- We will seek a properly qualified external assessor for the review with experience of reviewing similar audit services.
  - We will buy the assessment for payment rather than seeking to enter any reciprocal or peer arrangement. We feel this is important to safeguard the independence and professionalism of the review.
  - We will ask the assessor to consider best practice rather than simple conformance. This will give us a sense of where we stand on quality compared to the best of our peers. It will also point to improvements we can look into to develop the service.
  - We will seek one assessment across the whole partnership rather than individual assessments for each authority.
  - We will publish a terms of reference for the assessment to Members before fieldwork.
  - We will publish the final report of the assessment in full to Members. We will include in that publication any action plan proposed by the assessors and our response.
38. We welcome comments from Members on these principles and any specific matters of focus we might consider.



# MID KENT AUDIT

## Appendix I: Audit Universe

The “Audit Universe” is our running record of all services at the Council we might examine. The list below shows its current arrangement including details of previous reviews.

Area	Risk Score	Last Audit	Due	Corp Risk Link
<b>Top Priority: We aim to complete all of these during 2019/20</b>				
Car Parks & Enforcement	High	2016/17	Due	
Developer Contributions	High	2016/17	Overdue	✓
Information Management	Moderate	2016/17	Due	
IT Network Security	High	2018/19		
IT Tech Support	High	2014/15	Overdue	
Recruitment	Moderate	2013/14	Overdue	✓
Universal Credit	High			✓
Waste Crime Team	High			✓
<b>Medium Priority: We aim to complete around half of these during 2019/20</b>				
Budget Setting	Moderate	2015/16	Overdue	✓
Business Continuity	Moderate	2015/16	Overdue	
Business Rates	Moderate	2017/18	Not Due	✓
Community Protection Team	Low	2017/18	Not Due	✓
Contract Management	High	2017/18	Due	✓
Council Tax	Moderate	2016/17	Due	
Creditors	Moderate	2018/19	Not Due	
Customer Services	High			
Discretionary Housing Payments	Moderate	2016/17	Due	
Economic Development	High	2017/18	Due	✓
General Ledger	Moderate	2017/18	Due	
Health & Safety	Moderate	2016/17	Due	
IT Backup & Recovery	High	2017/18	Due	
IT Project Management	High			
Members’ Allowances	Low	2015/16	Due	
Parks	Moderate	2015/16	Due	
Planning Administration	High			
Residents’ Parking	High	2016/17	Not Due	
Social Media	Moderate	2014/15	Overdue	
Subsidiary Co. Governance	Moderate	2017/18	Due	
Treasury Management	Moderate	2016/17	Due	
Workforce Planning	Moderate			✓

# MID KENT AUDIT

## Low Priority: Keep under review but not likely to undertake further work in 2019/20

Building Control	Moderate	2018/19	Not Due	
CCTV	Moderate			
Conversation & Heritage	High			
Corporate Governance	Moderate	2017/18	Due	
Council Tax Reduction Scheme	Moderate	2018/19	Not Due	
Debt Recovery Service	High	2018/19	Not Due	
Declarations of Interest	Moderate	2018/19	Not Due	
Elections Management	Moderate	2016/17	Due	
Electoral Registration	Moderate			
Housing Benefit	Moderate	2016/17	Due	
Internal Communications	Moderate			
IT Asset Management	High			
Leisure Services	Moderate	2014/15	Overdue	
Parking Income	High	2017/18	Not Due	
Performance Management	Moderate	2016/17	Due	
Planning Enforcement	High	2018/19	Not Due	
Pre-Application Planning	High			
Procurement	High	2017/18	Due	✓
Property Management	Moderate	2016/17	Not Due	
Public Consultations	Moderate	2018/19	Not Due	
Public Health	Moderate	2016/17	Not Due	
Spacial Planning	High	2017/18	Due	✓
Training & Development	Moderate	2016/17	Due	
Waste Collection	High	2018/19	Not Due	✓
Website	Moderate			

## Very Low Priority: Recent assurance gained and no fresh risk indicated

Absence Management	Moderate	2018/19	Not Due	
Budgetary Control	Moderate	2018/19	Not Due	
Complaints Handling	Moderate	2018/19	Not Due	
Crematorium	Low	2017/18	Not Due	
Debtors	Moderate	2017/18	Not Due	
Emergency Planning	Moderate	2017/18	Not Due	
Facilities Management	Low	2016/17	Not Due	
Food Safety	Low	2017/18	Not Due	
Grounds Maintenance	Moderate	2018/19	Not Due	
Home Improvement Grants	Low	2017/18	Not Due	
Homelessness	Moderate	2018/19	Not Due	
HR Policy Compliance	Moderate	2018/19	Not Due	
Insurance	Moderate	2018/19	Not Due	
Land Charges	Moderate	2017/18	Not Due	
Licensing	Moderate	2018/19	Not Due	
Marketing	Low	2018/19	Not Due	

# MID KENT AUDIT

## Very Low Priority: Recent assurance gained and no fresh risk indicated (continued)

Museum	Low	2018/19	Not Due
Payroll & Expenses	Moderate	2017/18	Not Due
Project Management	Moderate	2018/19	Not Due
Safeguarding	Moderate	2018/19	Not Due
Staff Performance Management	Moderate	2018/19	Not Due
Theatre	Low	2016/17	Not Due
Tourism	Low		

# MID KENT AUDIT

## Appendix II: Audit Team and Restructure

We are proud in the Audit team of having a strong record in supporting development and achievement within our team. With that in mind we periodically revisit arrangements to ensure we, for now and the future, are set up to continue delivering an efficient and effective service. We are therefore currently consulting on a restructure proposal that aims to:

- Give more supervising and mentoring opportunities to our Senior Auditors. This will both support junior staff and make the role a better development step towards management for those with that ambition.
- Create Audit Apprentice roles, linked to the Level 7 Internal Audit Professional Scheme recently approved by the Department for Education. This scheme, which lasts up to four years, eventually provides apprentices with all the professional qualifications they would need to rise to Head of Audit level as well as a Master's degree in Audit & Consultancy.
- Create an annual pool of funds we can use flexibly to support different needs at partner authorities. This could be used, for instance, in securing specialist audit support on key projects. It could support authorities in delivering savings targets. Or get specific training to help existing members of the audit team.

The consultation period ends mid-March with new arrangements in place from the start of 2019/20. We will report to Members on results, and details of our new structure, in our annual reporting this coming June.

# MID KENT AUDIT

## Appendix III: Performance Indicators

We are consulting on new performance indicators for 2019/20. Our proposed indicators for reporting are:

### Training Take-Up

We recognise the success of our service is down to the quality of our people. The Council's working environment, its risks and the practice of professional audit keeps changing and we support and encourage our team to continue developing new skills.

We expect each person to devote a minimum 5% of their time to training and development, along a plan agreed with their line manager. This indicator measures how well people can take up and complete that training plan.

### Overall Plan Progress

Each audit plan promises a certain number of days productive audit work to each authority. This indicator measures how many productive days we have delivered against that plan target.

### Audit Feedback (Quantitative)

Feedback from audit sponsors and others is a key indicator in letting us know how well our service meets the needs of each Council. This quantitative measure records a simple 'satisfied/dissatisfied' from key stakeholders for each audit report. It sits alongside a broader range of qualitative measures giving us more detailed feedback.

### Prompt Reporting

Effective findings describe the world as it is now. Undue delay limits how much our findings can help the Council improve or add risk with issues unaddressed.

This indicator measures the time between completion of our fieldwork and issue of the final report. So it includes both the time spent on the audit side creating a draft report and the service side in framing its response. We typically aim to get from fieldwork to final report in 30 days.

# MID KENT AUDIT

## Appendix IV: Assurance Ratings

### Assurance Ratings 2019/20 (unchanged since 2014/15)

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

# MID KENT AUDIT

## Recommendation Ratings 2019/20 (unchanged since 2014/15)

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

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

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

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

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

# Agenda Item 14

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

**18 March 2019**

### **External Auditor's Audit Plan 2018/9**

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

#### **Executive Summary**

This report from the Council's External Auditor, Grant Thornton, sets out the planned approach to delivering the audit of the 2018/19 financial statements and value for money conclusion.

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

That the External Auditor's Audit Plan attached at Appendix A be noted.

#### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	18 March 2019



# External Auditor's Audit Plan 2018/19

## **1. INTRODUCTION AND BACKGROUND**

- 1.1 The external auditor produces an annual audit plan for the financial statements audit opinion and value for money conclusion. Following the appointment of Grant Thornton as our auditors for the period from 2018/19 to 2022/23, they will undertake this work. A copy of the plan is attached at Appendix A.
- 1.2 Representatives from Grant Thornton will be in attendance at the meeting to present their report and respond to questions.
- 

## **2. AVAILABLE OPTIONS**

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

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

- 3.1 It is recommended that the committee notes the report.
- 

## **4. RISK**

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

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

- 5.1 No consultation has been undertaken in relation to this matter.
- 

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

- 6.1 Next steps are outlined within Appendix A.
-

## 7. CROSS-CUTTING ISSUES AND IMPLICATIONS

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	The report is focused on ensuring that the auditor's opinion on the 2018/19 financial statements and value for money conclusion are issued by the statutory deadline of 31 July 2019.	Director of Finance and Business Improvement
<b>Risk Management</b>	See section 4.	Director of Finance and Business Improvement
<b>Financial</b>	There are no direct financial implications arising from the report, although the opinion on the financial statements and value for money conclusion are one mechanism through which the council demonstrates financial accountability.	Director of Finance and Business Improvement
<b>Staffing</b>	None identified.	Director of Finance and Business Improvement
<b>Legal</b>	The audit of the Council's Statement of Accounts is a statutory obligation. There are no specific legal implications arising from this report.	Director of Finance and Business Improvement
<b>Privacy and Data Protection</b>	None identified.	Director of Finance and Business Improvement
<b>Equalities</b>	None identified.	Director of Finance and Business Improvement
<b>Public Health</b>	None identified.	Director of Finance and Business Improvement

<b>Crime and Disorder</b>	None identified.	Director of Finance and Business Improvement
<b>Procurement</b>	None identified.	Director of Finance and Business Improvement

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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: External Auditor's Audit Plan 2018/19
- 

## **9. BACKGROUND PAPERS**

None.

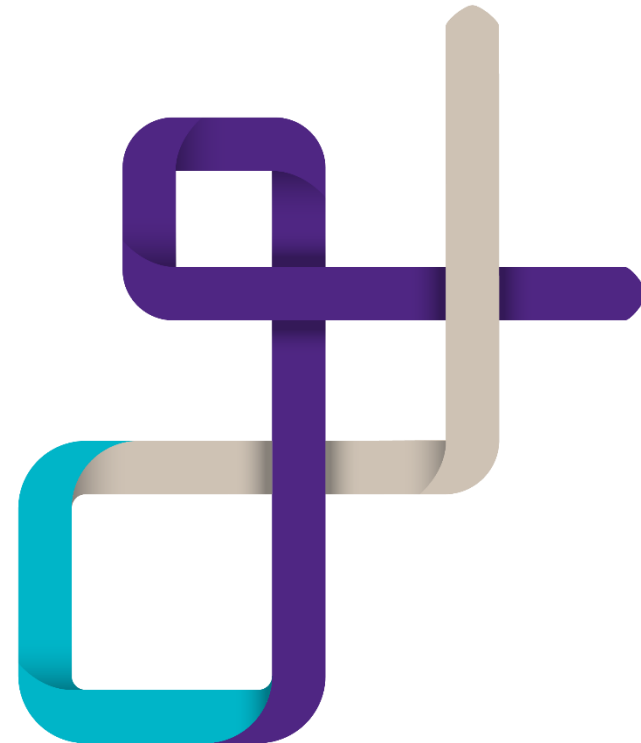
# APPENDIX A

# External Audit Plan

*Year ending 31 March 2019*

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Maipstone Borough Council  
March 2019



# Contents



Your key Grant Thornton  
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09

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## Section

	Page
1. Introduction & headlines	3
2. Key matters impacting our audit approach	4
3. Significant risks identified	5
4. Other matters	7
5. Materiality	8
6. Value for Money arrangements	9
7. Audit logistics, team & fees	10
8. Early Close	11
9. Independence & non-audit service	12

## Appendices

A. Audit Approach	14
B. Grant Thornton and Local Government	15

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Maidstone Borough Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Maidstone Borough Council. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, governance and standards committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit, Governance and Standards Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

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

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## Significant risks

61

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of property, plant and equipment
- Valuation of pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

---

## Materiality

We have determined planning materiality to be £1.8m (PY £1.8m), which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £91,600 (PY £90,700).

---

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Overall financial position
- Brexit

---

## Audit logistics

Our interim visit will take place in January and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be £38,866 (PY: £50,475) for the Council, subject to the Council meeting our requirements set out on page 10.

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## Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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# Key matters impacting our audit

## External Factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. The Council has a good track record of delivering against its budgets.

There is of course a lot of uncertainty still over this period given the next Local Government Spending Review will take effect from 2020 and the potential impact of Brexit, but the Council should look to be proactive in looking for savings for this period so they are in a strong position irrespective of what the Review delivers.

62

### Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

## Internal Factors

### New audit methodology

We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Authority into our risk assessment and testing approach.

### Capital Developments

The Council is undertaking significant investment over the next few years in developments in the borough. This involves working with other organisations such as Kent County Council as well as using the Council's own reserves.

### Business Rate Pooling

In September 2017, the government launched a prospectus inviting local authorities to submit proposals to pilot 100% business rates retention in 2018/19.

It was announced in December 2017 that Kent is be one of the 10 new pilots. Maidstone Borough Council has acted as the lead authority for Kent throughout 2018/19.

## Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Council and will review related disclosures in the financial statements.
- We will review the Council's arrangements for Brexit including financial and operational impact assessments.

- We will keep you informed of changes to the financial reporting requirements for 2018/19
- We will review assessments of the impact of the change in IFRS produced by the finance team
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs
- We will ensure that our resources and testing are best directed to address your risks in an effective way.

- We will consider the impact of Kent & Medway on your Business Rates Retention Pilot 2018/19 on financial resources as part of our work in reaching our Value for Money conclusion.



# Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Management over-ride of controls</b></p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
<p><b>Valuation of land and buildings</b></p>	<p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• discuss with the valuer the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register</li> <li>• evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>

63



# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - 65 • Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

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

## Going concern

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

## PSAA Contract Monitoring

Maidstone Borough Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts in 2018/19. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, [www.psa.co.uk](http://www.psa.co.uk).

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the attached presentation. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

# Materiality

## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

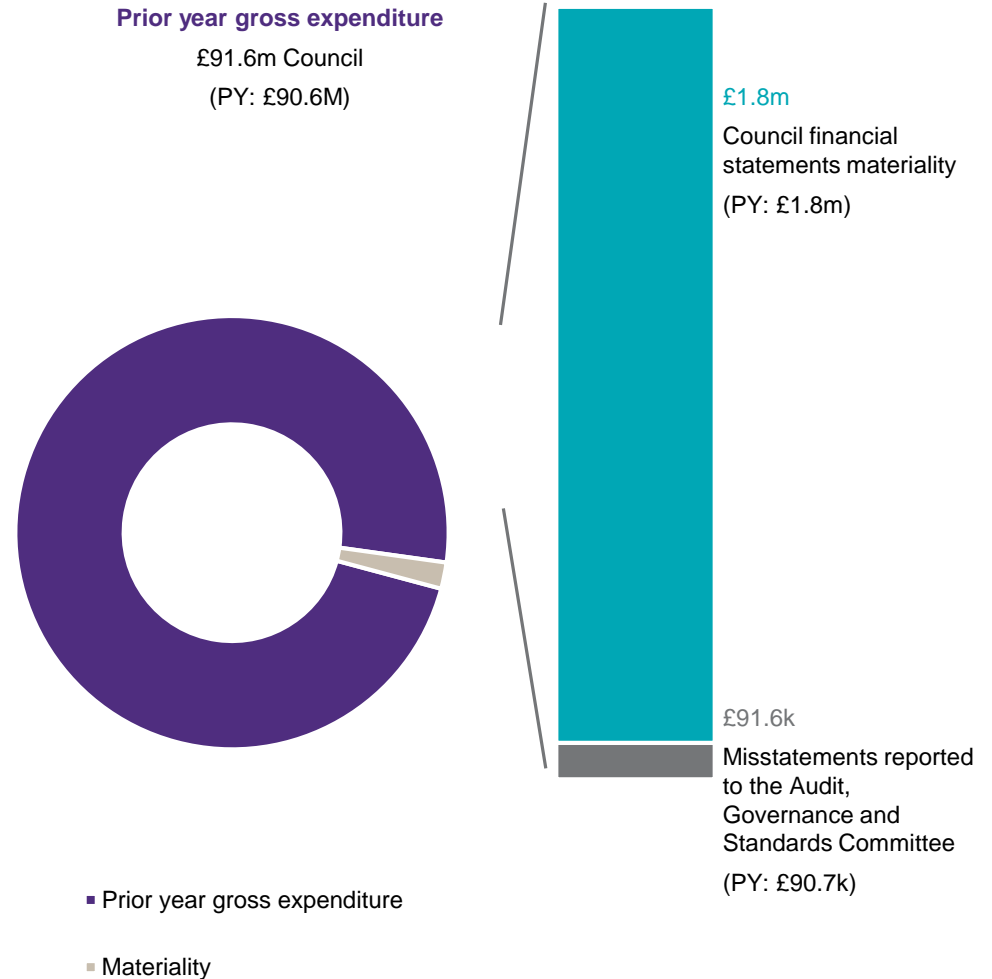
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.8m (PY £1.8m), which equates to 2% of your prior year gross expenditure for the year.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £91,600 (PY £90,700).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Governance and Standards Committee to assist it in fulfilling its governance responsibilities.



# Value for Money arrangements

## Background to our VFM approach

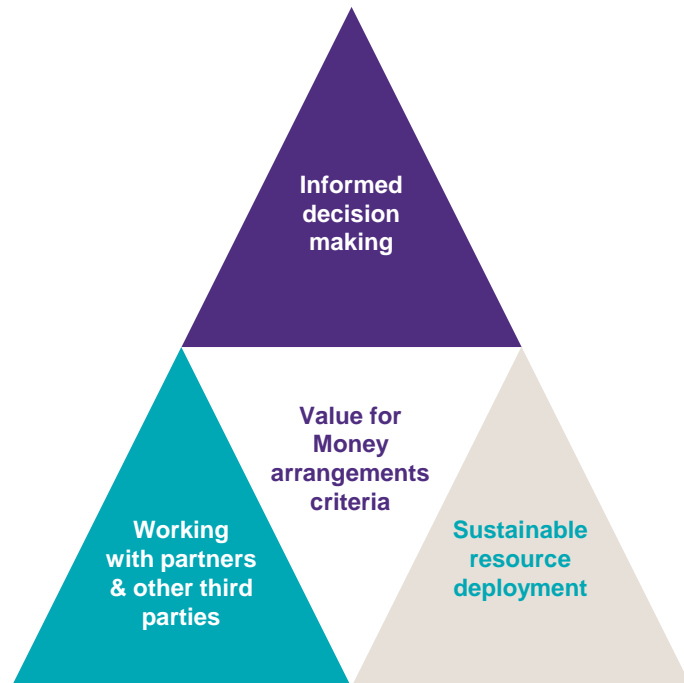
The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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

67



## Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



### Overall Financial Position – Medium Term Financial Strategy

Whilst the Council has been able to set a balanced budget over the short term, currently there is a requirement for a considerable level of savings of the life of the current Medium Term Financial Plan (MTFS).

We propose to:

- review the assumptions behind the latest MTFS, covering the period up to March 2024;
- consider the 2018/19 budget outturn, and any implications this may have for the MTFS, along with the latest outturn against the 2019/20 budget; and
- review the savings proposals which have been identified to date in respect of the savings requirements, along with the plans that the Council has to identify the additional savings currently required for the life of the MTFS.



### Brexit

With the UK due to leave the European Union on 29th March 2019, there will be national and local implications resulting from Brexit that will impact on MBC which they will need to plan for.

We propose to:

- review the arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments

# Audit logistics, team & fees



## Audit fees

The planned audit fees are £38,866 (PY: £50,475) for the financial statements audit completed under the Code. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of PSAA Limited. The indicative fees for 2018-19 are no less than £38,866. In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

# Early close

## Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 13). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing capital receipts grant	2,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is significantly lower in comparison to the total fee for the audit of £38,866 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Presentation to Council on Grant Thornton's Vibrant Economy Index	0	Self-interest	This was performed by a separate team to that involved in the audit and there was no related fee income.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.



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# Appendices

A. Audit Approach

B. Grant Thornton and Local Government

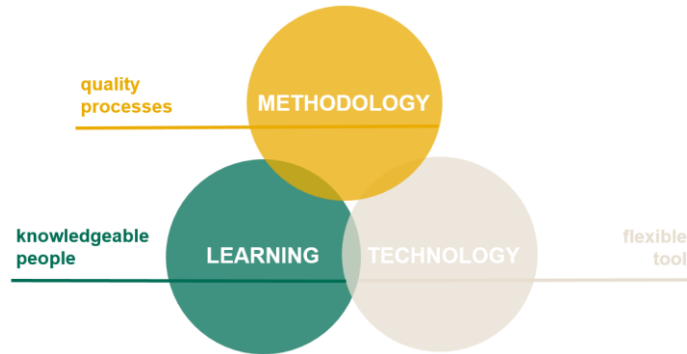
# Appendix A - Audit approach

## Use of audit, data interrogation and analytics software

### LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



72

### IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively



### Appian

Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on



### Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



#### REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



#### ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



#### VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



#### INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



#### FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



#### INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

# Appendix B – Grant Thornton and Local Government

## Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

## Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

## Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

## Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

## Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

## Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach



*"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."*

Director of Finance, County Council



## AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

**18 March 2019**

### External Audit Progress Report March 2019

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

#### **Executive Summary**

The Committee is invited to consider the report of the external auditor, which provides an update on progress with the 2018/19 audit and offers a summary of emerging national issues and developments of relevance to the local government sector.

Representatives of Grant Thornton will be in attendance at the meeting to present their report and respond to questions.

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

That the External Audit Progress Report attached at Appendix A be noted.

#### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	18 March 2019

# External Audit Progress Report March 2019

## **1. INTRODUCTION AND BACKGROUND**

- 1.1 External audit services to the Council are provided by Grant Thornton, following their appointment by Public Sector Audit Appointments Ltd (PSAA) for the period from 2018/19 to 2022/23.
  - 1.2 The report attached at Appendix A provides an update on progress with the 2018/19 audit and informs committee members of a number of relevant emerging issues and developments.
- 

## **2. AVAILABLE OPTIONS**

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

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

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

## **4. RISK**

- 4.1 This report supports the committee in the delivery of its governance responsibilities. It also helps to mitigate the risk of non-compliance with the statutory timetable for the production and audit of the annual accounts through timely communication of any potential issues.
- 

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

- 5.1 No consultation has been undertaken in relation to this matter.
- 

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

- 6.1 Next steps are outlined within Appendix A.
-

## 7. CROSS-CUTTING ISSUES AND IMPLICATIONS

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, production of an annual Statement of Accounts which is free from material or significant error is a key element of demonstrating accountability and value for money. It is therefore important that the Statement of Accounts meets this requirement.	Director of Finance and Business Improvement
<b>Risk Management</b>	See section 4.	Director of Finance and Business Improvement
<b>Financial</b>	There are no direct financial implications arising from the report, although the opinion on the financial statements and value for money conclusion are one mechanism through which the council demonstrates financial accountability.	Director of Finance and Business Improvement
<b>Staffing</b>	None identified.	Director of Finance and Business Improvement
<b>Legal</b>	The audit of the Council's Statement of Accounts is a statutory obligation. There are no specific legal implications arising from this report.	Director of Finance and Business Improvement
<b>Privacy and Data</b>	None identified.	Director of

<b>Protection</b>		Finance and Business Improvement
<b>Equalities</b>	None identified.	Director of Finance and Business Improvement
<b>Public Health</b>	None identified.	Director of Finance and Business Improvement
<b>Crime and Disorder</b>	None identified.	Director of Finance and Business Improvement
<b>Procurement</b>	None identified.	Director of Finance and Business Improvement

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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: External Auditor's Progress Report, March 2019

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## 9. BACKGROUND PAPERS

None.



# APPENDIX A

# Audit Progress Report and Sector Update

Maidstone Borough Council  
Year ending 31 March 2019

08  
March 2019



# Contents

<b>Section</b>	<b>Page</b>
Introduction	3
Progress at March 2019	4
Audit Deliverables	5
Sector Update	6
Links	13

# Introduction



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82

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**Engagement Manager**

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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

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

# Progress at January 2019

## Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We undertook our interim audit in January 2019. Our interim fieldwork visit included:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems

We also carried out the following early substantive testing for periods 1 to 9:

- Operating expenses sample
- Revenue testing
- Payroll testing of starters and leavers
- Opening balances reconciliation

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We will discuss our plan and timetable with officers.

The final accounts audit is due to begin on the 20 June with findings reported to you in the Audit Findings Report by the deadline of July 2019.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach are included in our Audit Plan. This is included as a separate agenda item.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

## Other areas

### Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 has now concluded.

The results of the certification work are reported to you in our certification letter, presented to the Audit Committee as a separate agenda item.

### Meetings

We met with the Director of Finance and Business Improvement in February as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in November to discuss the Council's strategic priorities and plans.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. A representative of the finance team attended our Chief Accountants Workshop in February.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2018/19 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018/19.	April 2018	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	March 2019	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Complete
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

# Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

98

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

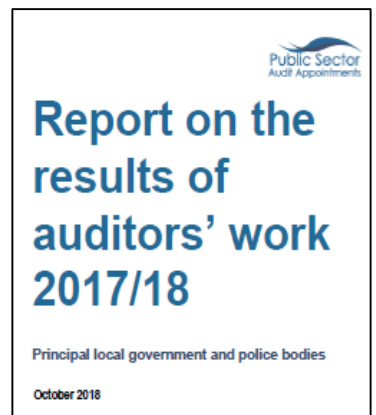
The report is available on the PSAA website:

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## PSAA Report

### Challenge question:

Has your Authority identified improvements to be made to the 2018/19 financial statements audit and Value for Money Conclusion?





# National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

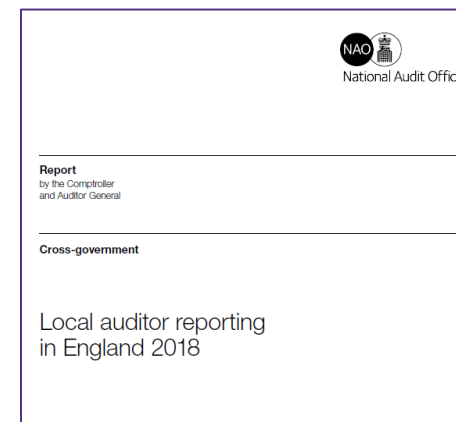
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



## NAO Report

### Challenge question:

Has your Authority responded appropriately to any concerns or issued raised in the External Auditor's report for 2017/18?



# National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

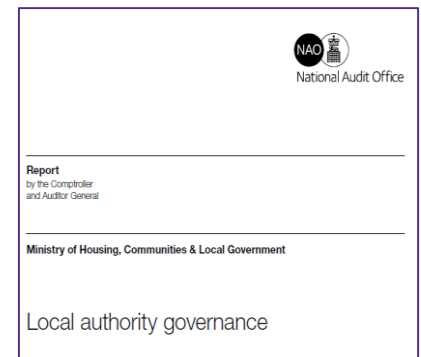
The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>

## NAO Report

### Challenge question:

Has your Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?



# ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a paper on the 'expectation gap' in the external audit of public bodies.

## Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

## What's the problem?

### Short-term solvency vs. Longer-term value:

- LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

## Future financial viability of local public bodies

Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

## The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

## More information can be found in the link below (click on the cover page)



## The expectations gap

### Challenge question:

How effectively is the audit meeting client expectations?



# Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

## Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

## Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

## The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



# In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

## Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

## Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

## Choosing the right company model

The most common company models adopted by councils are:

Wholly  
owned

Joint  
Ventures

Social  
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

## Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

## LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

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# Links

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## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

## National Audit Office link

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

92

## Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

## Public Sector Audit Appointments

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>



# Agenda Item 16

## AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

18 March 2019

### Budget Strategy – Risk Assessment Update

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

#### Executive Summary

This report provides an update on the budget risks facing the Council. The two key risks highlighted in the report are continued uncertainty about future local government funding arrangements and the potential financial implications of a disorderly exit from the EU.

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

That the updated risk assessment of the Budget Strategy provided at Appendix A be noted.

#### Timetable

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	18 March 2019



# 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). Council agreed a new MTFS covering the period 2019/20 – 2023/24 at its meeting on 12 December 2018. Given uncertainty about the future, the MTFS included projections based on three different scenarios - favourable, neutral and adverse. These indicated that the budget for 2019/20 was close to being balanced in the neutral scenario, given the various assumptions underlying the projections. However, in 2020/21 the budget gap will be significant under both the neutral and adverse scenarios. Savings proposals to reduce the gap were considered by Service Committees in January 2019 and formed part of the budget which was agreed by Council on 27 February 2019.
- 1.3 The two key risks to the Council continue to be changes to the local government funding regime and Brexit.

### **Changes to Local Government funding regime**

- 1.4 Uncertainty about the local government funding regime is captured in the budget risk register under the heading of 'adverse impact from changes in local government funding'. The medium term position from 2020/21 onwards, following the end of the current four year funding settlement, remains unclear. As described in the report on budget risks to the last meeting of this Committee, the government has now given some indications about the architecture of the new system. However, the crucial element, which is the amount of funding to be distributed between local authorities, depends on this year's Spending Review.
- 1.5 Maidstone Council now depends for its revenue income largely on Council Tax and locally-generated fees and charges. However, we do retain a proportion of the business rates that we collect. The exact amount of our share depends on decisions made by central government. It is this element in our income that is most at risk from changes in the local government funding regime.

### **Brexit**

- 1.6 When and how the UK will leave the EU remains unclear at the time of writing. A range of potential outcomes remains possible. For planning purposes, Maidstone Borough Council, following the lead of the Kent Resilience Forum, is continuing to prepare on the basis that there may be a 'no deal' Brexit on 29 March. This has already involved incurring additional

costs, and will certainly involve significant further costs if this outcome materialises. Costs include staff overtime and additional contract costs to maintain key services such as waste collection.

- 1.7 In the longer term, there may be adverse longer term effects on the economy from Brexit, with a knock-on impact for local authorities. This would affect both our costs, with the risk of having to spend more on services like homelessness, and our revenues, with a downturn in the economy affecting income from parking, planning fees and our commercial property holdings.
- 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.

	Risk	Factor considered	Implications for risk profile
D	Planned savings are not delivered	Planned savings / additional income in services including Parking, Planning and Property may not be achievable if there is a Brexit-related downturn in the economy.	Impact – major (no change) Likelihood – possible (increased)
B	Fees and Charges fail to deliver sufficient income	Fees and Charges, which have become an important mainstay of the budget in recent years, may reduce if there is a Brexit-related downturn in the economy.	Impact – major (increased) Likelihood – possible (no change)

- 1.9 Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register. Additionally, at the Committee’s request, the possible monetary impact of the risks has been indicated. Note that it is very difficult to quantify the financial impact of risks in precise terms. The information is provided simply to give an indication of the order of the risks’ financial magnitude.

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## 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.

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### 4. RISK

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

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### 5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 Each year the council as part of the development of the MTFS and the budget carries out consultation on the priorities and spending of the council. A Residents' Survey was carried out as part of the consultation on the new Strategic Plan and the updated MTFS 2019/20 – 2023/24.

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### 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.

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### 7. CROSS-CUTTING ISSUES AND IMPLICATIONS

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Director of Finance and Business Improvement
<b>Risk Management</b>	Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. Specific risks are set out	Director of Finance and Business Improvement

	in Appendix A.	
<b>Financial</b>	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.	Director of Finance and Business Improvement
<b>Staffing</b>	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement
<b>Legal</b>	The Council has a statutory obligation to set a balanced budget and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Director of Finance and Business Improvement
<b>Privacy and Data Protection</b>	No implications.	Director of Finance and Business Improvement
<b>Equalities</b>	The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Director of Finance and Business Improvement
<b>Public Health</b>	None identified.	Director of Finance and Business Improvement

<b>Crime and Disorder</b>	None identified.	Director of Finance and Business Improvement
<b>Procurement</b>	None identified.	Director of Finance and Business Improvement

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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
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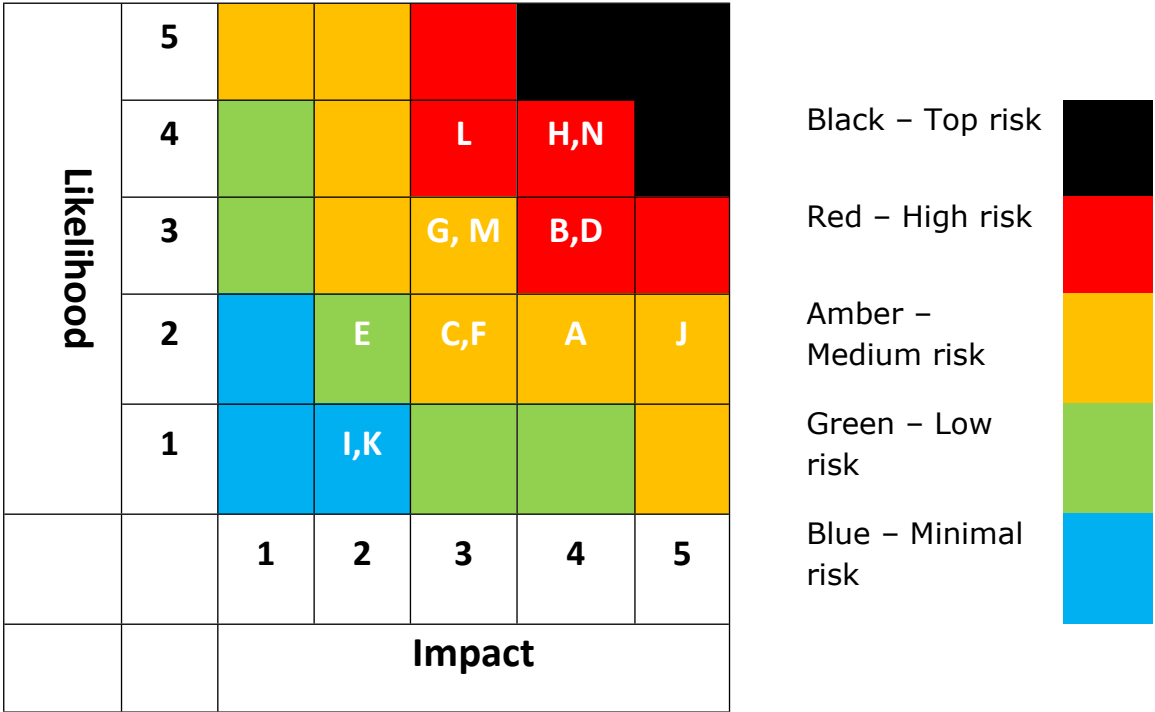
## **9. BACKGROUND PAPERS**

None.

**Budget Strategy Risks**

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

100



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

The budget risks may be ranked, based on the scores shown below, as follows:

Risk	Ranking	Financial impact (in any one financial year)				
		Lower £000	Upper £000	Mid- point £000	Likelihood %	Weighted £000
H. Adverse impact from changes in local government funding	1=	250	750	500	75	375
N. Adverse financial consequences from a disorderly Brexit	1=	250	750	500	75	375
B. Fees and Charges fail to deliver sufficient income	3=	200	600	400	50	200
D. Planned savings are not delivered	3=	250	750	500	50	250
O. Collection targets for Council Tax and Business Rates missed	3=	100	300	200	75	150
J. Capital programme cannot be funded	6	375	1,125	750	25	188
G. Inflation rate predictions in MTFs are inaccurate	8=	100	300	200	50	100
M. Business Rates pool / pilot fails to generate sufficient growth	8=	100	300	200	50	100
A. Failure to contain expenditure within agreed budgets	9	200	600	400	25	100
C. Commercialisation fails to deliver additional income	10=	100	300	200	25	50
F. Council holds insufficient balances	10=	100	300	200	25	50
E. Shared services fail to meet budget	12	50	150	100	25	25
I. Constraints on council tax increases	13=	50	150	100	5	5
K. Increased complexity of government regulation	13=	50	150	100	5	5

## Budget Strategy Risk Register 2018/19

The following risk register sets out the key risks to the budget strategy 2018/19 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
102	<p><b>A</b></p> <p><b>Failure to contain expenditure within agreed budgets</b> 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"> <li>- Embedded and well established budget setting process</li> <li>- Medium Term Financial Strategy</li> <li>- Balanced budget agreed by Council for 2019/20.</li> <li>- Strong controls over expenditure and established process for recovering from overspends</li> </ul>	4	2	8
	<p><b>B</b></p> <p><b>Fees &amp; Charges fail to deliver sufficient income</b> 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 around £20 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"> <li>- Fees and charges are reviewed each year, paying careful attention to the relevant market conditions</li> <li>- Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income.</li> <li>- Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised.</li> </ul>	4	3	12
	<p><b>C</b></p> <p><b>Commercialisation fails to deliver additional income</b> The commercial activities currently being delivered and projected in the MTFs do not deliver the expected level of income.</p>	<p>The medium term financial strategy includes a contribution from commercial opportunities, so any shortfall would have an impact on the overall strategy.</p> <p>Income generation from commercial activities supports the revenue budget and is required in</p>	<ul style="list-style-type: none"> <li>- The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses.</li> <li>- Individual risks associated with specific projects within commercialisation strategy</li> </ul>	3	2	6



Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		ordered to pay back capital investment.	will be assessed, both as part of the project appraisal process and during the course of delivering the projects.			
103 D	<p><b>Planned savings are not delivered</b> 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>	<p>- 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.</p> <p>- Savings proposals are separately identified and monitored in the Council's general ledger.</p> <p>- The ability to achieve the targeted savings is monitored quarterly in budget monitoring reports to the Corporate Leadership Team and to Service Committees.</p>	4	3	12
E	<p><b>Shared Services</b> 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
F	<p><b>Insufficient Balances</b> Minimum balance is insufficient to cover unexpected events OR 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 2018/19 financial year unallocated General Fund balances stood at £7 million.</p>	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
G	<p><b>Inflation rate predications in MTFS are inaccurate</b> 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"> <li>○ The advice and knowledge of professional employees</li> <li>○ The data available from national projections</li> <li>○ An assessment of past experience both locally and nationally</li> </ul> <p>- MTFS inflation projections are based on the government's 2% inflation target.</p>	3	3	9
104 H	<p><b>Adverse impact from changes in local government funding</b> The financial implications of the new local government funding regime to be introduced in 2020/21 remain unclear.</p>	<p>The Council no longer receives Revenue Support Grant (RSG), but the amount of Business Rates that it retains depends on the funding regime set by central government. This will change in 2020/21 but the precise impact on the Council is unknown..</p>	<p>- The Draft Medium Term Financial Strategy to 2023/24 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>	4	4	16
I	<p><b>Constraints on council tax increases</b> The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than 3% per annum.</p>	<p>The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be absorbed by making savings elsewhere.</p>	<p>- The budget for 2019/20 incorporates a Council Tax increase of 3%.</p> <p>- Budget planning is based around the assumption of a 2% increase in 2020/21.</p>	2	1	2
J	<p><b>Capital Programme cannot be funded</b> Reduction or total loss of funding sources means that the capital programme cannot be delivered</p>	<p>The main sources of funding are:</p> <ul style="list-style-type: none"> <li>○ Internal borrowing</li> <li>○ PWLB borrowing</li> <li>○ New Homes Bonus</li> </ul>	<p>- Council has been able to fund the capital programme without recourse to borrowing so far,</p> <p>- Council has confirmed in the past that</p>	5	2	10

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		<ul style="list-style-type: none"> <li>○ Capital Grants</li> <li>○ Developer contributions (\$106)</li> </ul> <p>A reduction in this funding will mean that future schemes cannot be delivered.</p>	<p>borrowing is acceptable if it meets the prudential criteria.</p> <p>- Local authorities continue to be able to access borrowing at relatively low cost through the Public Works Loan Board but there is a risk that this may be subject to restrictions in future.</p>			
105 <sup>K</sup>	<p><b>Increased complexity of government regulation</b></p> <p>Complexity of financial and other regulations along with increasing delays in providing guidance reduce the ability of the Council to identify risks at an early stage.</p>	<p>On a number of occasions, most recently with the introduction of GDPR, the financial consequences of government regulation have been significant. Failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy.</p> <p>In general these events bring consequences to other agencies and external relationships.</p>	<p>- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents.</p> <p>- Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.</p>	2	1	2
L	<p><b>Business Rates &amp; Council Tax collection</b></p> <p>Council fails to maintain collection targets for business rates and council tax</p>	<p>Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.</p> <p>Business rates due are in excess of £60 million for 2018/19.</p> <p>Council tax due is in excess of £80 million per annum.</p>	<p>- The Council has a good track record of business rates and Council Tax collection.</p> <p>- Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc.</p> <p>- Nonetheless, increasingly difficult trading conditions for some businesses may lead to a deterioration in collection performance.</p>	3	4	12
M	<p><b>Business Rates pool (17/18) / pilot (18/19)</b></p> <p>Changes to rateable value (RV) or instability of business rates growth within the pool/pilot may not generate projected levels of income</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. The proceeds from the pilot are based on Business Rates receipts for</p>	<p>- The pool (pilot 18/19) is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of the pool across Kent as a whole is projected to be around</p>	3	3	9

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		Kent & Medway as a whole.	<p>£10m in 2018/19.</p> <ul style="list-style-type: none"> <li>- The Council applied successfully with other Kent authorities to take part in a 100% Business Rates Retention pilot in 2018/19. This will mean Kent &amp; Medway retaining a further £30m of business rates growth.</li> <li>- Provisions have been made when projecting business rates income for bad debts and losses on appeal so any loss of income would relate to the excess over the provisions already made.</li> </ul>			
106 <sup>N</sup>	<b>Adverse financial consequences from a disorderly Brexit.</b> The increased probability of no deal with the EU means that the adverse financial consequences from Brexit are likely to be correspondingly higher.	<p>Short term - Increased costs in delivering services, eg arising from traffic congestion</p> <p>Medium term/ long term – Risk of recession, which could lead to a fall in business rates income, increasing pressure on homelessness budgets, and adverse central government funding settlements.</p>	<ul style="list-style-type: none"> <li>- Thorough preparation for Brexit, with an officer Brexit business continuity planning group to co-ordinate our response and liaise with other Kent authorities</li> </ul>	4	4	16

# 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 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 (4)	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