MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 16 MARCH 2020

Present: **Councillor Harvey (Chairman) and Councillors Adkinson, Brindle, Cox, Coulling (Parish Representative) Garten and Purle**

Also Present: **Ms Tina James and Mr Paul Dossett – Grant Thornton (External Auditor)**

82. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Daley, Fissenden, McLoughlin, Perry, Round and Titchener (Parish Representative).

83. NOTIFICATION OF SUBSTITUTE MEMBERS

The following Substitute Members were noted:

Councillor Garten for Councillor Round
Councillor Purle for Councillor Perry

84. URGENT ITEMS

There were no urgent items.

85. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

86. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

87. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

88. EXEMPT ITEMS

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

89. MINUTES OF THE MEETING HELD ON 13 JANUARY 2020

RESOLVED: That the Minutes of the meeting held on 13 January 2020 be approved as a correct record and signed.

90. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

91. QUESTIONS FROM MEMBERS TO THE CHAIRMAN

There were no questions from Members to the Chairman.

92. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

The Principal Solicitor, Contentious and Corporate Governance, introduced her report providing an update on complaints received under the Members' Code of Conduct during the period 1 September 2019 to 29 February 2020. It was noted that:

- Since the last report to the Committee on 16 September 2019, there had been two new Parish Council complaints. The first was an allegation of failure to disclose a pecuniary interest to the Monitoring Officer within the required timeframe and the second was an allegation of bullying and bringing the Member's office into disrepute. Both complaints were currently under consideration.

- No complaints had been made against Borough Councillors during this period.

In response to questions, the Principal Solicitor, Contentious and Corporate Governance, advised the Committee that:

- She could not confirm whether the Parish Councillors concerned had received appropriate training, but training was available. She had made a note of the suggestion by the Parish representative in attendance that if any further complaints were received against Parish Councillors, then the Parish Clerk(s) be asked whether the subject Members had received training, were they offered training and did they accept it.

- Informal resolutions to complaints and sanctions following hearings allowed a requirement for training, so if there had been no training there was a high likelihood that it would be one of the recommendations.

RESOLVED: That the update on complaints received under the Members' Code of Conduct during the period 1 September 2019 to 29 February 2020 be noted.

93. FRAUD & COMPLIANCE TEAM UPDATE

The Head of Revenues and Benefits Shared Service presented her report providing an update on the work undertaken by the Revenues and Benefits Fraud and Compliance Team. It was noted that:

- In 2016, the responsibility for investigating Housing Benefit fraud was transferred from the Council's Housing Benefit Service to the Department for Work and Pensions. The Council took the decision to continue with a shared Fraud Team as part of Mid-Kent Services to investigate fraud and error within the Council Tax and Business Rates systems.

- The Team covered Maidstone, Swale and Tunbridge Wells Borough Councils and was funded mainly by the Kent County Council as a precepting authority with the expectation of a 3:1 return on investment.

- The work programme for 2018/19 included activity aimed at addressing fraud and error within the Council Tax system (single person discount), Business Rates system (small business rate relief) and maximising the income to partner authorities through New Homes Bonus. Savings totalling £763,000 had been generated across the three authorities by the Team.

- The focus in the current year had been on the new release of National Fraud Initiative data and small business rate relief accounts. A new system was being implemented for the monitoring of single person discounts and the Team had finished working on the New Homes Bonus project, an exercise which had resulted in savings of £205,800. Savings generated across the three authorities by the Team during 2019/20 amounted to £1.1m to date.

In response to questions, the Head of Revenues and Benefits Shared Service advised the Committee that:

- Comprehensive checks were carried out in respect of single person discount including checking against the electoral roll and credit referencing checks to make sure that there was only one person as shown on the register/applying for any credit.

- The New Homes Bonus related not only to new homes but also to long term empty properties (properties which have been empty for more than two years) brought back into use. For each one of these properties identified as being occupied, the Council was given the sum of £1,400.

- In 2018/19 penalties were introduced whereby those residents who do not report changes in circumstances or who fraudulently make claims are issued with a penalty of £70. In addition to that the Team would seek to claim back any discounts.

RESOLVED: That the update on the work undertaken by the Revenues and Benefits Fraud and Compliance Team be noted.

94. INTERNAL AUDIT & ASSURANCE PLAN 2020/21

The Head of Audit Partnership submitted a report setting out the proposed annual Internal Audit and Assurance Plan for 2020/21. The report detailed how the Plan had been devised, the resources available through the Audit Partnership and the specific audit activities and projects to be delivered over the course of the year.

The Head of Audit Partnership confirmed that he was satisfied that the Plan had been compiled independently and without undue influence from either Officers or Members.

It was noted that:

- The Public Sector Internal Audit Standards require the Audit Partnership to produce and publish a risk based Plan, at least annually, to determine the priorities for the year. In producing the Plan, consideration must be given to input from senior management and Members and the Plan must be aligned to the objectives and risks of the Council. The risk assessment must consider internal and external risks, including global and sector risks. The Internal Audit Team had also undertaken a risk assessment line by line of every service within the Audit Universe (a running record of all services at the Council that Internal Audit might examine).

- To ensure that the Plan remained flexible and responsive to emerging and changing risks throughout the year, a priority rating had been allocated to each of the proposed audit projects. It was the aim to deliver 100% of the high priority rated projects and more than 50% of the medium priority rated projects during the year.

- Having identified the sorts of risks posed, consideration had been given to the quantity and quality of the resources available. The planning estimate for 2020/21 showed 1,810 days across the Partnership for the year available for inclusion in audit plans. The total number of days was then divided between the four Partnership authorities based on the proportions set out in the Collaboration Agreement. Since Maidstone contributed 29%, this amounted to 520 audit days. This was less than in previous years, but the Head of Audit Partnership remained satisfied that the level of resources was sufficient to deliver a robust Audit Plan.

- The Plan also included details of the proposed assurance non-project work that it was proposed to undertake as part of the wider risk, governance and counter fraud support for the Council and of the proposed consultancy work including completing Housing Benefit workbooks and testing for the External Auditor.

- The Public Sector Internal Audit Standards required Mid-Kent Audit to undergo an external quality assessment at least every five years. The IIA undertook the last assessment in spring 2015 and found that Mid-Kent Audit was fully conforming to the Standards. CIPFA had been commissioned to conduct the 2020 external quality assessment and the findings would be reported to the Committee in July together with the Internal Audit Service response. However, the draft findings had concluded that Mid-Kent Audit was fully conforming to the Standards.

In response to questions, the Head of Audit Partnership explained that:

- The intention of the project entitled S106 Agreements was to look at all payments that developers make to the Council to help fund infrastructure, including Community Infrastructure Levy payments. The Plan could be amended to clarify this.

- With regard to the reduction in audit days, there was a need for all departments to make savings and he was satisfied with the way in which they had been achieved and that the Audit Plan was sufficiently robust to achieve objectives.

- Ideally, the Collaboration Agreement would have been renewed before it expired last year. However, he was looking to rectify this and he was satisfied that all four Partner Authorities remained committed to the Internal Audit Service, which was his main priority.

- With regard to the priority ratings allocated to the proposed audit projects, and specifically the priority given to Subsidiary Company Governance and the Local Plan Project Governance Review, consideration had been given to how recently Internal Audit had looked at the area. Subsidiary Company Governance had been looked at quite recently and the Officers had only just finished following up the recommendations arising from the review. Internal Audit would look to see how the Company developed including, potentially, any services that might be offered to the Company at arm's length and how that might function. Last year Internal Audit had undertaken an ongoing piece of consultancy work looking at the Local Plan as it developed. Whilst both areas were strategically important the priority rating reflected the amount of good recent intelligence which meant that the risk of the Internal Audit assessment of the rating being wrong was less. However, both projects were in the upper part of the medium priority list so he expected that they would be delivered this year.

- The acquisition of data analytic software had been raised by the external quality assessor and the report to the Committee in July would include reference to the types of software packages that might be looked at and how they might be used to deliver areas of the Audit Plan.

- The compilation of the Audit Plan independently and without inappropriate influence from Members or Officers was crucial, but he

was always happy to take information on board to inform the selection of audit projects.

- Diminished reputation would make it more difficult for the Council to achieve its objectives so that would feature in the consideration of risk factors when compiling the Audit Plan.

- A report would be submitted to the July meeting of the Committee setting out details of the findings of the Internal Audit review of Health and Safety and the actions taken by the Council to address the recommendations.

The Chairman thanked the Head of Audit Partnership and his Team for their work.

RESOLVED:

1. That the Internal Audit and Assurance Plan for 2020/21, attached as Appendix 1 to the report of the Head of Audit Partnership, be approved.

2. That the Head of Audit Partnership's view that the Partnership currently has enough resources to deliver the Plan and a robust Head of Audit opinion be endorsed.

3. That the Head of Audit Partnership's assurance that the Plan is compiled independently and without inappropriate influence from management be endorsed.

95. ANTI-MONEY LAUNDERING POLICY AND GUIDANCE

The Head of Finance introduced the report setting out an updated version of the Council's Anti-Money Laundering Policy and Guidance to various stakeholders on how to prevent, detect and report cases of fraud through money laundering. The Head of Finance explained that:

- The first draft of the updated Policy was reported to the Committee in January 2020 when it was agreed that the document should be reviewed in the light of comments made by Members. Since then, the Finance Manager had reviewed the document in consultation with Councillor Adkinson and the main amendments following the review were:

  Paragraph 2.2 – Removal of a named Officer as the Money Laundering Reporting Officer, leaving it as the Director of Finance and Business Improvement (S151 Officer) which meant that it would not be necessary to amend the Policy in the event of staff changes.

  Paragraphs 3.2 and 4.1 – Reducing the large volume/value cash transactions for single transactions and/or two or more transactions which appear to be linked from £10,000 to £5,000.

Paragraph 4.2 – Keeping a register of all cash transactions over £2,000 to review who is making large cash payments to the Council.

- Amendments had also been made to make the document gender neutral.

- The document now reflected best practice guidance from the financial and legal professions, including CIPFA.

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

- This Policy related to cash transactions so payments through a bank for example would not count. So far as making linked payments was concerned, there was a risk that they might not be identified but he would hope that seeing a number of similar amounts from the same payer would be flagged up and it would then be treated as a cash amount of over £2,000 if it could be identified that the payments were linked.

- Although the Policy did not specifically say so, Officers would consider the need to undertake the sort of risk assessment required by Regulation 18 of the Money Laundering Regulations 2017.

During the discussion on this report, it was pointed out that paragraphs 1.4 and 3.1 of the revised Policy should be amended to correctly reflect the Money Laundering **Regulations 2017.**

The Chairman thanked Councillor Adkinson for his work on the updated Policy.

RESOLVED: That subject to paragraphs 1.4 and 3.1 of the Policy being amended to correctly reflect the Money Laundering Regulations 2017, the Council's updated Anti-Money Laundering Policy, attached as Appendix A to the report of the Head of Finance, be adopted and the Director of Finance and Business Improvement (S151 Officer) be confirmed as the Council's Money Laundering Reporting Officer.

96. EXTERNAL AUDIT PLAN 2019/20

Ms Tina James, accompanied by Mr Paul Dossett, presented the External Auditor's Audit Plan for delivering the audit of the 2019/20 financial statements and value for money conclusion. The report included details of the significant risks identified, the concept of materiality and the revised audit fee.

Ms James advised the Committee that the Council would be preparing group financial statements for the first time that consolidate the financial information of Maidstone Property Holdings Limited and the External Auditor would be auditing that consolidation. Also, a lot of work was required to prepare for the new accounting standard which would be effective from 2020/21.

In response to questions, Mr Dossett explained that:

- The additional fees related to a number of issues that had emerged over the last twelve months from the regulatory environment particularly involving the Financial Reporting Council and the requirements they were putting on auditors both in the corporate sector and the public sector, and also the complex new accounting standard. The fee variation proposals had to be agreed with Public Sector Audit Appointments Limited. In terms of the timeliness and resourcing of the audit, the audit had been planned to address some of the issues raised last year. Given the resources that would be available this year, the External Auditor expected to be able to complete the audit by the end of July in accordance with the Audit Plan.

- The External Auditor had limited control over the way that materiality was calculated. Materiality at the planning stage of the audit was £1.9m for the group and £1.8m for the Authority financial statements which equated to 1.9% of the Council's prior year gross expenditure for the year. If the level was set lower, then it would be necessary to undertake more work and the audit fee would increase.

RESOLVED:

1. That the External Auditor's Audit Plan for the year ending 31 March 2020, attached as Appendix 1 to the report of the Head of Finance, be noted.

2. That the revised audit fee of £46,366 for 2019/20 be noted.

97. EXTERNAL AUDIT - PROGRESS REPORT AND SECTOR UPDATE MARCH 2020

Ms Tina James presented the report of the External Auditor on the progress to date against the 2019/20 Audit Plan. The report also provided a summary of emerging national issues and developments of relevance to the local government sector. It was noted that the External Auditor had completed the interim audit. Whilst some issues were still under discussion, no significant issues had been identified from this early substantive testing and documentation of controls.

In response to questions, Mr Dossett explained that with regard to the possibility of lobbying the Government to introduce a staggered timescale for audit reporting so that not every local authority has to report by the same date, there were two issues. Firstly, the impact of the COVID-19 virus and secondly, any changes arising from the Redmond Review of Local Authority Financial Reporting and External Audit. It was recognised that for Officers and auditors, it was very challenging to meet the existing tight timescale.

RESOLVED: That the External Auditor's progress report, attached as Appendix 1 to the report of the Head of Finance, be noted.

98. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

The Director of Finance and Business Improvement introduced his report providing an update on the budget risks facing the Council.

The Director of Finance and Business Improvement advised the Committee that:

- Since the preparation of the report there had been further developments. Firstly, the Chancellor's budget and secondly, the implications of the spread of the COVID-19 virus.

- Although there was not much in the Chancellor's budget about local government, the Chancellor did indicate that Public Works Loan Board lending for local authorities would be reviewed and commercial property investments in particular would be looked at. He did not consider that this increased the risks to the Council as it did not invest just in order to generate a commercial return.

- The spread of the COVID-19 virus was likely to have an impact on the Council in terms of disruption to service delivery due to staff absence, reduction in fees and charges income and difficulties in collecting business rates from, for example, the hospitality sector. The assessment of the financial impact was provisional and would need to be reviewed as events unfolded.

- Councillor Coulling had asked that an alternative presentation of the financial assessment of the risks in the form of a bar chart be used to augment the matrix set out in the report. He would be happy to adopt Councillor Coulling's suggestion if it made things clearer for Members.

Members indicated that they would like to proceed with the incorporation of a bar chart presentation of relative risks in future reports on the budget risks facing the Council.

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.

99. DURATION OF MEETING

6.30 p.m. to 7.35 p.m.