

# AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 16 March 2020  
Time: 6.30 p.m.  
Venue: Town Hall, High Street, Maidstone

## Membership:

Councillors Adkinson (Vice-Chairman), Brindle, Coulling (Parish Representative), Cox, Daley, Fissenden, Harvey (Chairman), McLoughlin, Perry, Round and Titchener (Parish Representative)

*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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4. Notification of Visiting Members	
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7. To consider whether any items should be taken in private because of the possible disclosure of exempt information	
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**Issued on Friday 6 March 2020**

**Continued Over/:**

*Alison Broom*

**Alison Broom, Chief Executive**

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

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## MAIDSTONE BOROUGH COUNCIL

### AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

#### MINUTES OF THE MEETING HELD ON MONDAY 13 JANUARY 2020

**Present:** Councillor Harvey (Chairman), and  
Councillors Adkinson, Brindle, Coulling, Cox,  
Fissenden, Perry and Titchener

62. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Daley, McLoughlin and Round.

63. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

64. URGENT ITEMS

There were no Urgent Items.

65. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

66. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures from Members and Officers.

67. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

68. TO CONSIDER WHETHER ANY ITEMS SHOULD BE TAKEN IN PRIVATE  
BECAUSE OF THE POSSIBLE DISCLOSURE OF EXEMPT INFORMATION

**RESOLVED:** That all items be taken in public as proposed.

69. MINUTES OF THE MEETING HELD ON 18 NOVEMBER 2019

**RESOLVED:** That Minutes of the meeting held on 18 November 2019 be agreed as a correct record and signed.

70. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC (IF  
ANY)

There were none.

71. COMMITTEE WORK PROGRAMME 2019/20

**RESOLVED**: That the Work Programme 2019/20 be noted.

72. HOUSING BENEFIT GRANT CLAIM

The Business Support Manager presented the report on the outcome of the Housing Benefit Grant Claim audit undertaken by Grant Thornton to certify the Housing Benefit Subsidy Claim for 2018-19.

The Housing Benefits team carried out over 56,000 assessments covering over £45.5m. Four errors were found in initial testing, which resulted in a further 200 cases being tested. In carrying out the audit the auditors found a 99.91% accuracy rate, with errors causing a net effect of no overall change to the value to the Council.

In response to the auditor's findings the Housing Benefits team were undertaking a review of all the errors identified and reviewing all similar cases for the 2019/20 grant claim.

In response to questions it was noted that although the report set out 4 errors found in 40 Housing Benefit claims this was not a 10% error rate but much lower as there were many interactions on each case. The majority of errors were figures being transposed. The Committee requested that a note clarifying the error rate calculation be included in future reports.

**RESOLVED**: That

1. The findings of the Housing Benefit Grant Claim Audit undertaken by Grant Thornton be noted; and
2. The action plan proposed by the Revenues and Benefits Shared Service to address errors identified through the audit process be noted.

73. GDPR ACTION PLAN UPDATE

The Policy and Information Manager introduced the report providing an update on progress against the General Data Protection Regulations (GDPR) action plan. The report also provided the Committee with the Information Commissioner's (ICO) report 'GDPR – one year on'.

The ICO believed that regulations and work on awareness had seen an increased awareness for individuals and businesses regarding rights. This had resulted in an increase in contact from individuals to businesses regarding their rights, and this was something the Council had also experienced.

The ICO set seven regulatory priorities for the year ahead, including cyber security, children's privacy, political campaigns and surveillance – all of which were particularly relevant to the Council.

Paragraph 2.6 set out examples where notices of intent had been issued by the ICO, and a further case example, resulting in a £275k fine for a business, was circulated to the committee – this had been due to poor storage of documents and them being left open to damage.

The updated plan was set out in Appendix 1. Whilst the work on a record of processing activities and on CCTV had been completed the work on the Council's information asset register remained outstanding. This was due to this piece of work being deprioritised with pressures and staffing changes within the team.

In response to questions from the Committee they were informed that the Information Management Group, which covered more than GDPR, met quarterly with the next meeting to be held on 28 January 2020. The CCTV review had been completed and the Information Management Group were overseeing the recommendations from that review.

Protection of addresses was an important issue to avoid action from the ICO. The action plan set out the action on information audits which had been completed; they included a thorough review of process and considered safeguarding actions for address data. The Council did experience data breaches, as any organisation dealing with the same amount of data would, but staff took immediate action if a data breach occurred. On occasions the Council had self-reported to the ICO, but no further action was taken.

The Committee requested clarification on the Data Protection assessment process for ICT projects. Initially projects considered whether there were any data protection implications and if there were the project was required to complete a Data Protection Impact Assessment. This would include considerations of security of data in the ICT environment for the project. It was also noted that ICT project management was included in the draft 2020/21 audit plan.

There was recognition from the Committee on the importance of GDPR in political campaigning and they requested guidance on the issue. National guidance was already in place and the Policy and Information Manager undertook to circulate this to Members.

Questions were asked about parishes retaining information, particularly on planning applications, and the Committee were informed that parishes needed to be clear on why they were holding it, to be secure in the storage of it and follow retention schedules and guidance.

**RESOLVED:** That the progress of the implementation of the General Data Protection Regulations be noted.

74. ANNUAL GOVERNANCE STATEMENT UPDATE

The Head of Policy, Communications and Governance presented the report on the Annual Governance Statement which provided an update on the Action Plan for 2019-20 that had been approved by the Committee in July.

The Committee asked whether the online learning training modules for staff on gifts and hospitality applied to Members. They were informed that the training material could be made available to Members and if the Committee wanted more training it would be considered.

**RESOLVED**: That the Annual Governance Statement Report be noted.

75. AUDIT - DECLARATIONS OF INTEREST - UPDATE

The Principal Solicitor (Contentious and Corporate Governance) presented the report which arose following a review of Member and officer interests and gifts and hospitality declarations. All Member Disclosable Pecuniary Interest returns were received by November 2019 and had been published on the Council's website.

Related party transaction forms were required by the end of April each year for the previous financial year and are part of the audit process. These had been chased and there was a process of reminders and escalation. Guidance and reminders had also been sent on gifts and hospitality.

Officers were required to submit biannual returns in addition to those for new employees. Guidance and a form had been created and an online process was being developed. Wider Leadership Team and Unit Managers had been updated and a team talk was delivered in December 19.

The Committee highlighted that some officer roles were more sensitive than others and were reassured that updates to declarations of interests were required by all officers as and when they happened in addition to the biannual process. The Committee were also informed that the response for not reporting an interest was an employment process and would be considered appropriately depending on the circumstances. There were some concerns raised about the need for heightened reporting of interests given the extensive capital programme and procurement activity planned.

**RESOLVED**: That the actions implemented to address the recommendations of the audit exercise relating to Member and officer declarations of interest be noted.

76. ANNUAL RISK MANAGEMENT REPORT

The Audit Manager introduced the Annual Risk Management report setting out the details of how risk management processes were working across the Council. The purpose of the report was to provide the Committee assurance that risk management was effective and risks were being managed and monitored appropriately.

The report set out an overview of the Risk Management process used by the Council, which was refreshed in early 2019, with a revised risk management framework adopted by Policy and Resources Committee in April 2019. The report also set out the Council's risk profile of its risk register. It was highlighted that the overall number of risks had remained fairly static although risk scores had changed. An updated risk table was circulated to the Committee which included updated scores for project failure and housing pressures, both now scored as 12.

The Audit Partnership was investigating replacing its spreadsheet system with a risk management system in order to improve reporting.

**RESOLVED**: That the Risk Management Annual Report be noted.

77. COUNTER FRAUD & CORRUPTION POLICY

The Head of Audit Partnership presented the report setting out a refresh of the Counter Fraud and Corruption Policy. The policy had originally been agreed in January 2018 with a provision for review in two years. The document had been reviewed, with minor textual amendments and one substantive change to the 'Further Advice and Support' section of the guidance for those who become involved in an investigation.

The Committee considered the wording in paragraph 17 of the policy and felt that the wording should be made clearer for a presumption of action being taken and amended the wording to "...will, unless there are exceptional circumstances, result in disciplinary action."

**RESOLVED**: That the Policy and Resources Committee be recommended to approve the Counter Fraud and Corruption Policy, subject to the word 'may' being replaced with 'will, unless there are exceptional circumstances,' in paragraph 17 of the policy.

78. ANTI-MONEY LAUNDERING POLICY AND GUIDANCE

The Finance Manager set out the report updating the Committee on the Council's Anti-Money Laundering Policy. The previous policy had been drafted in 2014 and needed updating in line with the Money Laundering Regulations 2017. The key change was the need for further due diligence checks on higher risk customers. The report also set out that the nominated Money Laundering Reporting Officer (MLRO) was the Director of Finance and Business Improvement.

The Committee raised concerns about the level of responsibility put on to front line staff to report money laundering. Assurance was given that the employees most likely to have to report money laundering, those handling incoming cash receipts, would have the training necessary to equip them appropriately. Once reported to the MLRO further work and investigation would be required before it was reported externally.

The quantum of cash payments set out in 4.1 of the policy, those that should not be accepted, was debated by the Committee. The stated amount of £10,000 was queried as being too high. It was noted that this amount was set out in the CIPFA guidance and that some customers paid for their Council Tax in cash. It was also suggested that a register should be kept of those making large cash payments and investigated.

Further, several minor amendments and corrections to the text were suggested. The Committee therefore considered that it was appropriate to bring the policy back to a later committee meeting so the minor amendments could be properly made. There was no risk in this action as the current Anti-Money Laundering policy was still in place.

**RESOLVED:** That the report be deferred to a later committee to allow minor amendments to be made.

**Note:** Councillor Perry left the meeting after consideration of this item.

79. TREASURY MANAGEMENT, INVESTMENT AND CAPITAL STRATEGIES 2020/21

The Finance Manager presented the report on the draft Treasury Management Strategy, Investment Strategy and Capital Strategy for 2020/21. CIPFA had revised the Prudential Code, such that the Council's Investment and Capital Strategies now need to be approved alongside the Treasury Management Strategy.

The Treasury Management Strategy was concerned with ensuring enough cash was available for the Council's day to day running, whereas the other strategies focussed on non-treasury investments, risks and funding.

The Council's approach was still to run down balances to fund the capital programme. It had entered into a borrowing position utilising an alternative option to the Public Works Loan Board, given the increase in PWLB rates last year. Borrowing was being kept to the short term for the time being but this would remain under review. A total borrowing requirement of £53.1m over three years was expected.

The Investment strategy had been updated with the service loan to Cobtree of £330k. The Capital Strategy had been updated to include the current capital programme, but it was noted that this was subject to approval by Policy and Resources on 22 January 2020.

The Committee reflected on the briefing on borrowing they had received prior to the meeting and indicated how useful it had been. The Committee stressed its support for borrowing in principle and wanted officers to consider the time value of money in decisions on whether to borrow early. Officers responded that interest rates and borrowing options were kept under review and that previous reports on capital purchases had included the time value of money.

**RESOLVED**: That

1. The Treasury Management Strategy for 2020/21 attached as Appendix A to the report be agreed and recommended to Council for adoption, subject to any amendments arising from consideration of the capital programme by Policy and Resources Committee at its meeting on 22 January 2020;
2. The Investment Strategy for 2020/21 attached as Appendix B to the report be agreed and recommended to Council for adoption; and
3. The Capital Strategy for 2020/21 attached as Appendix C to the report be agreed and recommended to Council for adoption.

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

The Director of Finance and Business Improvement presented a report that provided an update on the budget risks facing the Council. The main risks that had changed were in relation to Brexit, with the risk moving to December 2020, and Local Government funding which had been resolved in the short term as the Council now knew what its settlement would be for 2020/21. Funding for 2021/22 onwards was unclear with indications expected in the Spring.

A risk relating to litigation costs exceeding the budget provision had been added. This had arisen not because of any specific major piece of litigation being under way but because of a number of issues prompting the need for it. The current contingency was £250k and this had not been drawn down in recent years to cover litigation costs. It was noted that this risk would include litigation arising from enforcement actions.

Risk 'J', i.e. that the Capital Programme would not be funded, was highlighted by the Committee, with their support for funding the capital programme being reiterated. In response officers informed them that it was considered to be a risk because of the requirement for the Government to back local government's spending plans – though it was understood that alternative sources of funding were available.

**RESOLVED**: That the updated risk assessment of the Budget Strategy provided at Appendix A to the report be noted.

81. **DURATION OF MEETING**

6.35 p.m. to 8.10 p.m.

# Agenda Item 11

<b>Audit, Governance &amp; Standards Committee</b>	<b>16<sup>th</sup> March 2020</b>
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## Complaints Received Under the Members' Code of Conduct

<b>Final Decision-Maker</b>	Audit, Governance & Standards Committee
<b>Lead Head of Service</b>	Patricia Narebor – Head of Legal Partnership and Monitoring Officer
<b>Lead Officer and Report Author</b>	Jayne Bolas – Principal Solicitor, Contentious and Corporate Governance
<b>Classification</b>	Public
<b>Wards affected</b>	All

### Executive Summary

The report provides an update to the Committee on complaints received under the Members' Code of Conduct for the period 1st September 2019 to 28 February 2020.

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

1. That the contents of the report be noted.

### Timetable

<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	16 <sup>th</sup> March 2020

# Complaints Received Under the Members' Code of Conduct

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	High standards of conduct are essential amongst Members in delivering the Council's priorities. The Code of Conduct and complaints procedure supports this.	Principal Solicitor, Contentious and Corporate Governance
<b>Cross Cutting Objectives</b>	No impact.	Principal Solicitor, Contentious and Corporate Governance
<b>Risk Management</b>	The report is presented for information only and has no risk management implications. An effective Code of Conduct and robust complaints procedure minimises the risk of Member misconduct and is part of an effective system of governance.	Principal Solicitor, Contentious and Corporate Governance
<b>Financial</b>	There are no direct financial implications; however, should it be necessary to appoint external Independent Investigators, the cost of this will be met by the Borough Council.	Principal Solicitor, Contentious and Corporate Governance
<b>Staffing</b>	The complaints procedure is dealt within the remit of the Monitoring Officer with input from the Legal team as required.	Principal Solicitor, Contentious and Corporate Governance
<b>Legal</b>	The requirements of the Localism Act 2011 with regards to the Code of Conduct and complaints procedure are set out within the report. The reporting process ensures that the Committee continues its oversight of the Code of Conduct as required by the Constitution.	Principal Solicitor, Contentious and Corporate Governance
<b>Privacy and Data Protection</b>	No personal information is provided as part of the report.	Principal Solicitor, Contentious and Corporate Governance

<b>Equalities</b>	Any potential to disadvantage or discriminate against different groups within the community should be overcome within the adopted complaints procedure.	Principal Solicitor, Contentious and Corporate Governance
<b>Public Health</b>	None identified in the report.	Principal Solicitor, Contentious and Corporate Governance
<b>Crime and Disorder</b>	None identified in the report.	Principal Solicitor, Contentious and Corporate Governance
<b>Procurement</b>	None identified in the report.	Principal Solicitor, Contentious and Corporate Governance

## 2. INTRODUCTION AND BACKGROUND

- 2.1 It is a requirement under the Localism Act 2011 that all Councils adopt a Code of Conduct and that the Code adopted must be based upon the Nolan Principles of Conduct in Public Life. The current Members' Code of Conduct ("the Code") for Maidstone Borough Council is set out in the Constitution.
- 2.2 The Localism Act 2011 requirement to adopt a Code of Conduct also applied to all the Parish Councils. Most Parish Councils in the Maidstone area have adopted a similar Code of Conduct to the Borough Council, based on a Kent wide model. A few Parish Councils have adopted their own particular Code.
- 2.3 Under the Localism Act 2011 Maidstone Borough Council is responsible for dealing with any complaints made under the various Codes of Conduct throughout the Maidstone area.
- 2.4 The Constitution stipulates that oversight of Code of Conduct complaints is part of the remit of the Audit, Governance and Standards Committee.
- 2.5 As part of the Committee's oversight function it is agreed that the Monitoring Officer will provide reports on complaints to the Audit, Governance and Standards Committee. It should be noted that the Localism Act 2011 repealed the requirement to publish decision notices; therefore in providing the update to the Committee the names of the complainant and the Councillor complained about are both kept confidential in accordance with the Data Protection Act 2018.

2.6 Since the last report to this Committee on 16<sup>th</sup> September 2019 there have been 2 new Parish Council complaints as follows:

- Allegation of failure to disclose a pecuniary interest to the Monitoring Officer within the permitted timeframe. The complaint is currently under consideration.
- Allegation of bullying and bringing the Member's office into disrepute. The complaint is currently under consideration.

2.7 There have been no complaints made against a Borough Councillor.

### **3. AVAILABLE OPTIONS**

3.1 The Committee could decide that they no longer wish to receive the updates on complaints under the Code of Conduct. This is not recommended as it is part of the Committee's general oversight function.

3.2 That the Committee note the update on complaints received under the Members' Code of Conduct.

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

4.1 Option 3.2 that the Committee note the update on complaints received under the Members' Code of Conduct is recommended as it is essential that the Committee continue to oversee the complaints received.

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### **5. RISK**

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

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

6.1 Members of the Audit, Governance and Standards Committee and the Independent Person in accordance with the relevant complaints procedure will be consulted with on individual complaints as and when necessary.

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

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

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### **8. REPORT APPENDICES**

None.

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# Agenda Item 12

## AUDIT GOVERNANCE AND STANDARDS COMMITTEE

16 March 2020

### Fraud and Compliance Team update

<b>Final Decision-Maker</b>	Audit Governance and Standards Committee
<b>Lead Director</b>	Stephen McGinnes Mid Kent Services Director
<b>Lead Officer and Report Author</b>	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
<b>Classification</b>	Public/Private
<b>Wards affected</b>	All

#### Executive Summary

To update the Committee on work undertaken by the Revenues and Benefits Fraud & Compliance team.

#### Purpose of Report

Noting

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

That the contents of the report are noted.

#### Timetable

<b>Meeting</b>	<b>Date</b>
Audit Governance and Standards Committee	16 March 2020

## Fraud & Compliance team update

### 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities.	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
<b>Cross Cutting Objectives</b>	None	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
<b>Risk Management</b>	This report is presented for information only and has no risk management implications.	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
<b>Financial</b>	The Fraud & Compliance team receives funding from Kent County Council of £136,620 (on expected 3:1 savings). The cost to Maidstone Borough for the service is £23k	Section 151 Officer & Finance Team
<b>Staffing</b>	There are no changes to staffing proposed in this report	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
<b>Legal</b>	<ul style="list-style-type: none"> <li>• It is a function of the Audit, Governance and Standards Committee to monitor the effectiveness of Council's counter-fraud and corruption Strategy.</li> <li>• This report provides an update on the work undertaken by the Revenues and Benefits Fraud &amp; Compliance team.</li> <li>• There is no statutory duty to report regularly to Committee on the Team's performance. However, under Section 3 of the Local Government Act 1999 (as amended) a best value authority has a statutory duty to secure continuous improvement in the way in which its</li> </ul>	Keith Trowell, Team Leader (Corporate Governance), MKLS

	functions are exercised having regard to a combination of economy, efficiency and effectiveness. Reports on the Team's performance assist in demonstrating best value and compliance with the statutory duty.	
<b>Privacy and Data Protection</b>	Accepting the recommendations will not increase the volume of personal data held by the Council.	Anna Collier Policy and Information Manager
<b>Equalities</b>	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Anna Collier Policy & Information Manager
<b>Public Health</b>	No impact	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
<b>Crime and Disorder</b>	No impact	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
<b>Procurement</b>	No impact	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership

## **2. INTRODUCTION AND BACKGROUND**

- 2.1 The purpose of this report is to advise the Committee of the work undertaken by the Fraud & Compliance team within the Revenues and Benefits Partnership.
- 2.2 In 2016 the responsibility for investigating Housing Benefit fraud was moved from the Council's Housing Benefit service to the Department for Work and Pensions (DWP).
- 2.3 The Council took the decision to continue with a shared fraud team as part of Mid Kent Services using the team to investigate fraud and error within Council Tax and Business Rates.
- 2.4 The localisation of Council Tax Support and reliance on Business Rates as

an income for the authority changed the financial risk to the Council and preceptors. Whilst there had been some activity to address the risk associated with single person discounts for Council Tax, the service had historically focused its efforts on Housing Benefit.

- 2.5 The transfer of the Housing Benefit fraud function to the DWP created both a risk and opportunity to the Council. With the administration of Housing Benefit and Council Tax Support being directly linked the Council had in effect been able to 'police' the two systems at the same time. With the removal of Housing Benefit and the investigation resource that was deployed with it, this had the potential to leave Council Tax Support and therefore Council Tax exposed to fraud with no identified resource to investigate or deter fraud.
- 2.6 The change also created an opportunity in releasing a team of experienced specialist staff, with good local knowledge, to both manage the ongoing risk within Council Tax Support and deliver capacity to expand their work into other areas both within the Council Tax and Business Rates system.
- 2.7 With the value of discounts and exemptions estimated at £16million and the risk of customer fraud high, agreement was reached with the support of the precepting authorities to fund the current team on the understanding that there would be a suitable return on investment.
- 2.8 The agreed business case set out a method of sharing the cost and projected savings in line with the value to each partner based on their level of precept.

#### 2018/19 Outturn

- 2.9 The work programme for 2018/19 included activity aimed at addressing fraud and error within the Council Tax system (single person discount), Business Rate system (small business rate relief) and maximising the income to partner authorities through new homes bonus.
- 2.10 Small Business Rate Relief is awarded businesses where businesses only occupy one property with a Rateable Value under £51,000.
- 2.11 New Homes Bonus is a grant paid to councils by Central Government to reflect and incentivise housing growth.
- 2.12 It is based on the amount of extra Council Tax revenue raised for new homes, conversions and long term empty properties brought back into use.
- 2.13 Table 1. Summary of savings generated 2018/19

Small Business Rates Relief	£41,848
Single person discount	£82,779
Charities	£17,870
New homes bonus	£562,800
National Fraud Initiative (Council	£57,066

Tax Reduction)	
Penalties	£280
<b>Total</b>	<b>£762,643</b>

#### 2019/20 Outturn (to date)

- 2.14 The focus in the current year has been on the new release of National Fraud Initiative data and small business rate relief accounts, whilst a new system is being implemented for the monitoring of single person discounts.
- 2.15 The team finished working on the New Homes Bonus project in October. This has been a really worthwhile exercise for the team, with no additional costs apart from postage and a few credit checks being incurred. For Maidstone, 147 properties were found to be occupied. The number of properties is multiplied by £1,400 to give the final results of the exercise amounting to savings of £205,800.
- 2.16 Table 2. Summary of savings generated across the 3 authorities by the team 2019/20 to date

Small Business Rate Relief	£248,877
Single Person Discount	£6,580
New Homes Bonus	£543,200
National Fraud Initiative (Council Tax Reduction and Single Person Discount)	£248,795
Housing Benefit Matching Service (HBMS)	£54,597
Penalties	£2,520
<b>Total</b>	<b>£1,104,569</b>

- 2.17 In 2018-19 penalties were introduced where those residents who do not report changes or who fraudulently make claims will be issued with a penalty of £70. The number of penalties issued has increased in 2019-20.
- 2.18 In conjunction with the Kent Intelligence Network (KIN) software has been partly funded by Kent County Council with a view to share information with other authorities in Kent to help reduce fraud and error in the county.
- 2.19 We are proposing to use this software in 2020-21 to further increase the savings that can be identified.

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### **3 AVAILABLE OPTIONS**

- 3.1 Option 1 - The Council could decide not to have a Fraud and Compliance team and to leave any reviews of Council Tax and Business Rates

discounts and reviews to the Revenues team. This is not recommended given that the team has demonstrated a return on the funding by Kent County Council by more than the required 3:1.

- 3.2 Option 2 - The Council continues to have a Fraud & Compliance team to ensure it has a dedicated resource to address fraud and error.
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#### **4 PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 Option 2 is the preferred option for the reasons stated.
- 

#### **5 RISK**

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

#### **6 CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 6.1 None
- 

#### **7 REPORT APPENDICES**

- 7.1 None
- 

#### **8 BACKGROUND PAPERS**

- 8.1 None

# Agenda Item 13

**Audit, Governance & Standards**

**16 March 2020**

## **Internal Audit & Assurance Plan 2020/21**

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

### **Executive Summary**

This report sets out the proposed plan for Mid Kent Audit's work at Maidstone Borough Council during 2020/21. The plan 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.

### **Purpose of Report**

The Audit, Governance & Standards Committee as part of its terms of reference must retain oversight of the internal audit service and its activities. This includes the Committee's role to formally consider and approve the plan.

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

1. That the Internal Audit & Assurance Plan (appendix 1) for 2020/21 is **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 is **endorsed**
3. That the Head of Audit Partnership's assurance that the plan is compiled independently and without inappropriate influence from management is **endorsed**

### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	16 March 2020

# Internal Audit & Assurance Plan 2020/21

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

The Council's internal control processes include operating an effective internal audit service. The internal audit and assurance plan aim is to deliver on that requirement and in doing so, supports the overall governance of the Council.

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities &amp; cross-cutting objectives</b>	The audit plan supports all Council activities and the wider corporate priorities in assisting governance around delivery of objectives (including cross-cutting objectives)	Deputy Head of Audit Partnership
<b>Risk Management</b>	The audit plan draws on the Council's risk management processes as a means to assess and prioritise the areas for inclusion. In addition, our audit findings seek to address control weaknesses over the effective management of operational and corporate risks.	
<b>Financial</b>	The internal audit & assurance plan is resourced through the Audit Partnership within agreed resources.	
<b>Staffing</b>	There are no direct staffing implications associated with the decision.	
<b>Legal</b>	<p>The Council is required by Regulation to operate an internal audit service, including agreeing a plan at least annually. Therefore, the Council must approve a plan to maintain regulatory conformance.</p> <p>The Council's Constitution gives the Audit, Governance and Standards Committee responsibility for considering reports dealing with the management and performance of Internal Audit Services.</p>	Team Leader (Corporate Governance), MKLS
<b>Privacy and Data Protection</b>	We collect and store information in the course of our audit work examining areas of the Council. We use that information in accordance with our collaboration agreement which, in turn, is in accordance with applicable laws and regulations.	
<b>Equalities</b>	There are no direct equalities implications associated with the decision.	
<b>Public Health</b>	There are no direct public health implications	

	associated with the decision.	
<b>Crime and Disorder</b>	There are no direct crime and disorder implications associated with the decision.	
<b>Procurement</b>	There are no direct procurement implications associated with the decision.	

## 2. INTRODUCTION AND BACKGROUND

- 2.1 The **Public Sector Internal Audit Standards** (the “Standards”) require the audit Partnership to produce and publish a risk based plan, at least annually, to determine the priorities for the year. The plan must consider input from senior management and Members and be aligned to the objectives and risks of the Council.
- 2.2 The purpose of this report is to set out the **annual internal audit and assurance plan 2020/21** to Members. The report details how the plan is devised, the resources available through the Partnership and the specific audit activities and projects be to delivered over the course of the year.
- 2.3 The Standards set out the requirements of the Chief Audit Executive (the Head of Audit Partnership fulfils this role for Maidstone Borough Council) that must be met when creating the audit plan. Specifically, Standard 2010:

### 2010 Planning

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

#### *Interpretation:*

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation’s strategies, key business objectives, associated risks and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation’s business, risks, operations, programmes, systems, and controls.

### Public sector requirement

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

- 2.4 The Audit, Governance & Standards Committee needs to obtain assurance on the effectiveness of the control environment, governance and risk management arrangements. The principal source of this assurance is derived from the annual assurance plan.
- 2.5 Standards explicitly support that the plan is flexible and responsive to emerging and changing risks across the year. Therefore, like with the 2019/20 audit plan, the 2020/21 plan includes audit reviews that are **high** priority and those that are **medium** priority. By taking this approach we are able to achieve flexibility within the plan and ensure that the plan remains relevant throughout the year.
- 

### **3. AVAILABLE OPTIONS**

- 3.1 The Audit, Governance and Standards Committee as part of its terms of reference must retain oversight of the internal audit service and its activities. This includes the Committee's role to formally consider and approve the plan. The Council could decide that it does not want a programme of work for the audit service, however, this would go against professional Standards.
- 

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

- 4.1 The appendix sets out the proposed plan for 2020/21, including background details on how we compiled the plan and how we propose to manage its delivery. The preferred option is for the Audit, Governance and Standards Committee to consider and approve the plan.
- 4.2 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.
- 

### **5. RISK**

- 5.1 The risks associated with this decision, including the risks if the Council does not act as recommended, have been considered in line with the Council's Risk Management Framework. We are satisfied that the risks associated are within the Council's risk appetite and will be managed as per the Policy.

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

- 6.1 We consult with Managers, Heads of Service and Directors throughout the year as we undertake our work, but also specifically as part of the audit planning process. The plan attached represents the collective views of management and the audit service.
- 6.2 The overall resource allocation between the partners is consistent with the collaboration agreement and discussed with the Shared Service Board.
- 

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

- 7.1 Work will commence on the audit plan in June 2020 and will be used to inform the Head of Audit Opinion in the summer of 2021.
- 

## **8. REPORT APPENDICES**

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

- Appendix 1: Internal Audit and Assurance Plan 2020/21
- 

## **9. 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 AND ASSURANCE PLAN 2020/21**

# **Internal Audit & Assurance Plan 2020/21**

## **Maidstone Borough Council**



# MID KENT AUDIT

## Introduction

1. Our mission as an Internal Audit service is to enhance and protect organisational value. We achieve this by bringing a systematic and disciplined approach to evaluate and improve effectiveness of risk management, control and governance. We work within statutory rules drawn from the Accounts and Audit Regulations 2015 and the [Public Sector Internal Audit Standards](#) (the “Standards”).
2. 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. The Chartered Institute of Public Finance and Accounting (CIPFA) won the contract to conduct the External Quality Assessment due in 2020. That work is underway. We will report findings to Members of this Committee at its next meeting in the summer.
3. To protect the independence and objectivity of our service, we work to an [Audit Charter](#). The *Charter* sets out the local context for audit, including granting right of access to systems, records and personnel. At this Council, the Audit, Governance and Standards Committee approved the Charter in September 2019.
4. The Standards set out demands for compiling and presenting a document to describe planned work for the year ahead. Specifically, our plan 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.
5. Our plan includes assurance and other work, such as consultancy engagements. We can accept advisory work where it is the best way to support the Council. The *Audit Charter* sets out how we consider such engagements, including how we safeguard our independence.
6. We must also clarify that our audit plan cannot address all risks across the Council and represents our best use of the resources we have available. In approving the plan, the Committee recognises this limit. To that end, we constantly keep the plan under review to be live to risks issues as they emerge.

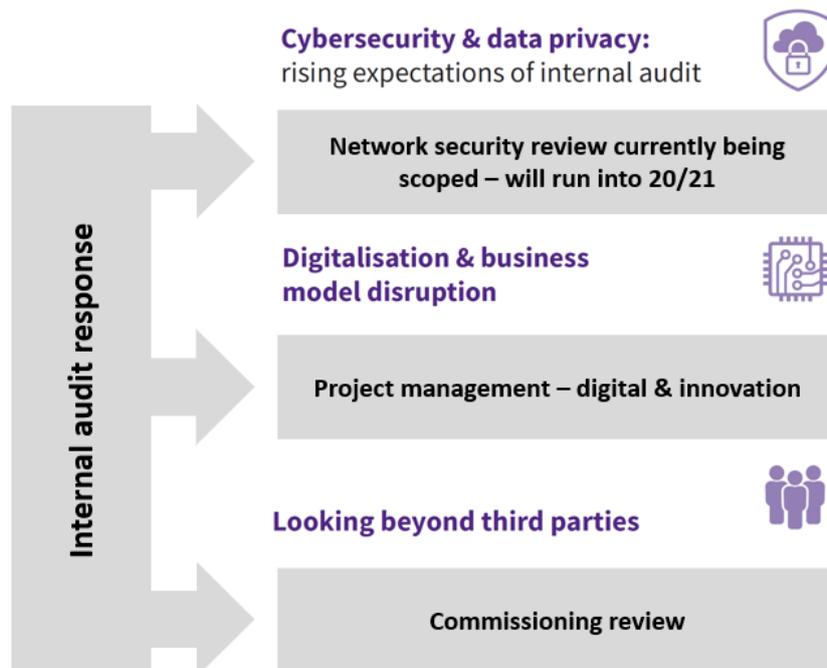
# MID KENT AUDIT

## Risk Assessments

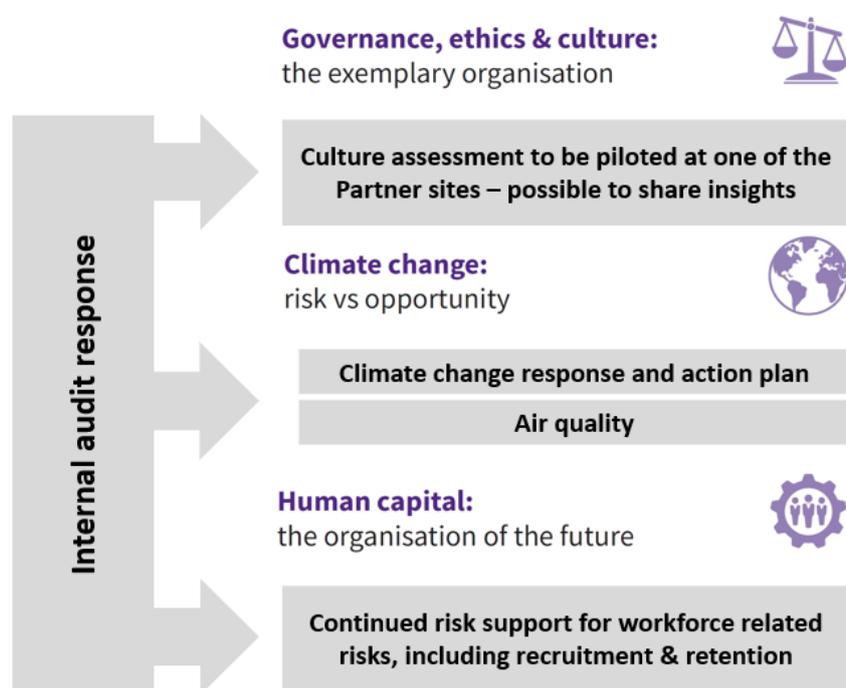
7. The Standards direct us to begin our audit planning with a risk assessment. This assessment must consider internal and external risks, including those relevant to the sector or global risk issues. Our plan for 2020/21 represents our views now, but we will continue to reflect and consider our response 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 Chair) on significant changes.

## Global and Sector Risks

8. In considering global and sector risks we draw on various sources. These include updates provided by relevant professional bodies, such as the IIA and CIPFA. We also consult colleagues in local government audit both direct through groups such as London and Kent Audit Groups and through review of other published audit plans in the South East.
9. These sources give us insight into the key issues facing local government and how other audit teams and business leaders are responding to future risk issues. To show our thinking on these wider risks we've highlighted below some of the issues discussed by the IIA in [Risk in Focus 2020](#):



# MID KENT AUDIT



## Corporate Risk Review

10. The Council maintains a corporate risk register. These key risk issues cover matters that threaten the Council's overall objectives, either because of their severity or the breadth of impact across several services. This Committee received an annual risk update in [January 2020](#), which included details of each corporate risks and the overall effectiveness of the risk management process.
11. Some of the corporate risk issues identified include **financial restrictions, housing, retail and leisure**. In addition to recognising the significant impact that can result from failures relating to **IT security, major projects** and **contracts**. We have therefore considered these risks specifically when undertaking our audit planning assessments.

## Audit Risk Review and Consultation

12. Beyond keeping an awareness of Sector and local risk issues, we conduct our own assessment. We consider all possible audit entities across the Council (the "audit universe") on one specific risk:

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

# MID KENT AUDIT

13. As with a typical risk assessment there are two main parts to consider (impact and likelihood). The first: how important is the service to the Council's overall objectives, the controls and how errors might impact our opinion. 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, Regeneration and Climate Change will be higher risk owing to the direct link with the Council's objectives.

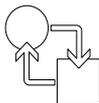


**Support Service Risk:** The extent interdependencies between Council departments. For example, many services rely on effective ICT.

14. 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 regulate or inspect 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 directly with the public and handle cash, for example licensing and parking, are higher risk.

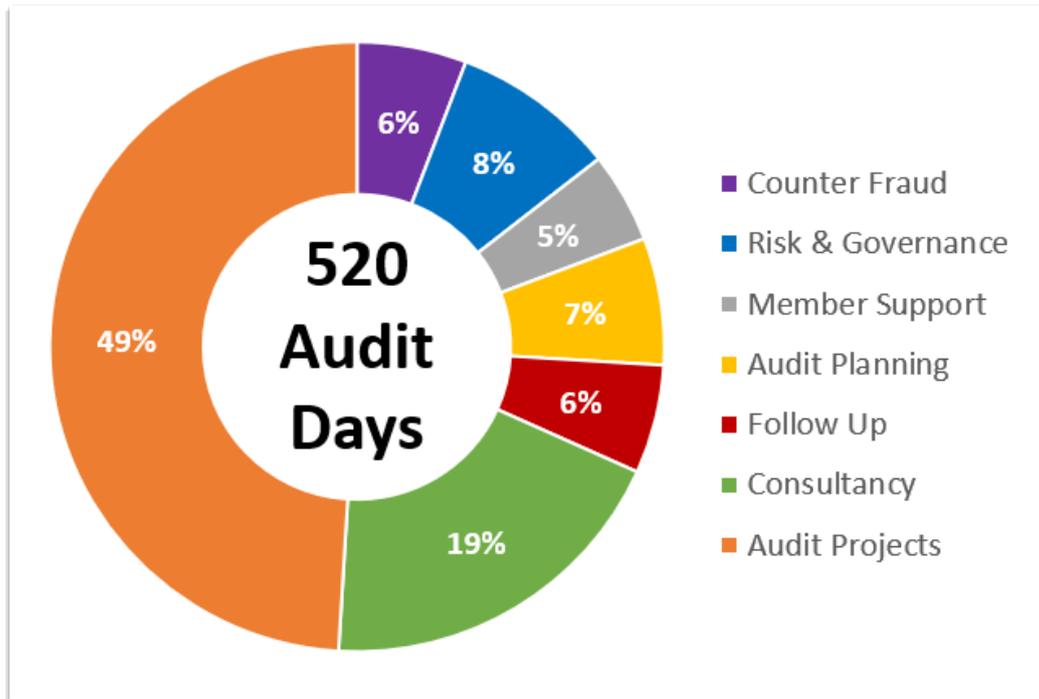
# MID KENT AUDIT

15. The results of these various risk assessments provide a provisional audit plan. We then take this provisional plan out to consultation. We meet Managers, Heads of Service and Corporate Leadership Team (which includes the Directors and Chief Executive) to get their perspective on our assessment and give us updates on their areas of responsibility.
16. We set out the full audit universe and audit history in Appendix I.

# MID KENT AUDIT

## Resources

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. The Audit Partnership has 11.6 full time equivalent officers. To calculate the available resources for the year, we take the total available days and subtract various categories of non-working and non-audit time. Our planning estimate for 2020/21 shows **1,810** days across the partnership for the year available for inclusion in audit plans.
19. We then divide the total number of days between the 4 partnership authorities based on the proportions set out in our collaboration agreement. Maidstone contributes approximately 29%, which rounds to audit days of **520**.



20. The actual number of days allocated are set out below:

<b>Audit Projects</b>	<b>255 days</b>	<b>Members Support</b>	<b>25 days</b>
<b>Consultancy</b>	<b>100 days</b>	<b>Risk &amp; Governance</b>	<b>45 days</b>
<b>Follow-up</b>	<b>30 days</b>	<b>Counter Fraud</b>	<b>30 days</b>
<b>Audit Planning</b>	<b>35 days</b>		

# MID KENT AUDIT

21. Audit Standards require us to assess whether the resources available – in both quantity and quality – 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.
22. Based on this assessment, we believe we have a sufficient quantity of resources to deliver the 2020/21 audit plan.
23. We must also consider the skills, expertise and experience of our team. We hold a variety of qualifications that help to ensure that we provide a high-quality service. These include CIPFA, Certified and Chartered Internal Auditors, a Chartered Accountant, a Certified Risk Manager and Accredited Counter Fraud Specialists. In addition, we are also supporting 2 apprentices through level 7 audit qualifications (equivalent to full Chartered status). This gives us a wealth of relevant technical expertise to undertake the various specialist areas identified on our audit plan.
24. We also have access to sources of specialist expertise through framework agreements with audit firms, which includes access to subject matter experts. While this access is less than in previous years (with Maidstone choosing to use some of these days to provide savings) access to specialist resources is still available.
25. Based on the above, we believe we also have skills and expertise to deliver the 2020/21 audit plan.

## **Proposed Audit & Assurance Work 2020/21**

26. Members will be familiar with the assurance ratings that we issue upon concluding our work (see Appendix II 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 would not be suitable.
27. This recognition of the wider assurance that we provide means that our audit plan also includes the governance, risk and other advisory roles we fulfil.

# MID KENT AUDIT

## Audit & Assurance Plan 2020/21

28. Below we set out our audit engagements for the year ahead, along with an indicative objective for each review. We will agree the detailed objectives with the service as part of planning each review. Based on our risk assessment and consultations with management we have allocated a priority level to each of the audit projects:

**HIGH PRIORITY:** We will aim to deliver 100% of these projects during the year

**MEDIUM PRIORITY:** We aim to deliver more than 50% of these projects during the year

Project Title	Priority Rating	Proposed objective of the review ( <i>"Obtain assurance on the effectiveness of controls seeking to..."</i> )
Section 106 Agreements	High	- collect, monitor and release funds under Section 106 Agreements
Development Management	High	- ensure that decisions are made in accordance with scheme of delegations and planning application files that they are quality assured appropriately
Project Management Governance	High	- ensure appropriate governance processes are in place for internal transformation projects
Capital Project Management	High	- manage the innovation centre project - learn lessons from past capital projects
Public Consultations	High	- to seek and obtain views on Council proposals
Homelessness Duties	High	- manage homelessness in line with the Homelessness Reduction Act duties
Climate Change	High	- take action in light of the declared climate change emergency
Bailiff Service <sup>1</sup>	High	- administer enforcement cases in line with regulation - collect, record, monitor and distribute debt income
IT Back-Up <sup>1</sup>	High	- back-up the Councils' data - recover data after a data loss event
Environmental Enforcement - Air Quality <sup>1</sup>	High	- response to Climate Change crisis and to verify progress against agreed actions
Homeless Outreach	Medium	- securely manage and administer the outreach budgets and allowances
Residential property management	Medium	- ensure that residential properties are safe and comply with relevant safety legislation
Accounts Receivable	Medium	- collect, record and monitor income owed to the Council through the accounts receivable process

<sup>1</sup> Shared service with Swale and Tunbridge Wells

# MID KENT AUDIT

Project Title	Priority Rating	Proposed objective of the review ( <i>"Obtain assurance on the effectiveness of controls seeking to..."</i> )
Grounds maintenance	Medium	- ensure the Council's green spaces are maintained - ensure the commercial aspect of the service is operating effectively
Garden waste	Medium	- provide garden waste collections to residents paying for the service
Electoral Registration	Medium	- enrol eligible individuals on the electoral register
Property Acquisition & Disposal	Medium	- ensure effective purchasing and selling of properties in line with Council policy
Property management	Medium	- ensure that commercial properties are safe and comply with relevant safety legislation - collect, record and monitor rental income.
Subsidiary Company Governance	Medium	- governance arrangements over the subsidiary company - monitoring and reporting arrangements for the subsidiary company
Commissioning	Medium	- effectively commission council services
Local Plan Project Governance Review	Medium	- monitor and report milestones, risks and project information
Community Infrastructure Levy	Medium	- collect, monitor and release funds under the Community Infrastructure Levy scheme
IT Asset Management <sup>2</sup>	Medium	- manage and control IT assets
Pay & Display <sup>3</sup>	Medium	- ensure pay & display parking is managed in line with regulations and policy - collect, record & monitor pay & display income
Traffic Regulation Orders <sup>3</sup>	Medium	- ensure traffic regulation orders are implemented in line with Traffic Regulation Act 1984
Planning Admin <sup>3</sup>	Medium	- validate planning applications - collect, record and monitor of planning application fees
Housing Benefit Overpayments <sup>4</sup>	Medium	- collect, record & monitor housing benefit overpayments

29. Total days allocated to assurance projects: **255 days**

<sup>2</sup> Shared service with Swale and Tunbridge Wells

<sup>3</sup> Shared service with Swale

<sup>4</sup> Shared service with Tunbridge Wells

# MID KENT AUDIT

30. The table below outlines key workstreams that we intend to undertake as part of the wider risk, governance and counter fraud support for the Council:

Proposed Assurance Non-Project Work 2020/21	165 days
<b>Risk &amp; Governance</b> <ul style="list-style-type: none"> <li>• Review and Implementation of risk software</li> <li>• Regular monitoring and reporting to Senior Officers and Members</li> <li>• Training, briefings and advise to Officers and Members</li> </ul>	
<b>Counter Fraud</b> <ul style="list-style-type: none"> <li>• General Policy and Advice, including Whistleblowing and Anti-Corruption</li> <li>• Continued development of the Council Fraud Risk Assessment to identify possible proactive counter fraud work</li> <li>• Incident specific advice, support and reactive investigation</li> <li>• Training, briefings and advice to Officers and Members</li> </ul>	
<b>Member Support</b> <ul style="list-style-type: none"> <li>• Attendance and preparation for Audit, Governance &amp; Standards Committee and other Members' meetings (including Chairman's briefings).</li> <li>• Developing and presenting Member briefings on governance issues.</li> </ul>	
<b>Agreed Actions Follow Up</b> <ul style="list-style-type: none"> <li>• Ensuring officers carry out actions as agreed.</li> <li>• Reporting progress towards implementation to Senior Officers and Members.</li> </ul>	
<b>Audit Planning</b> <ul style="list-style-type: none"> <li>• Continued horizon scanning and review of audit plan risk assessments to ensure emerging risk issues are identified</li> </ul>	

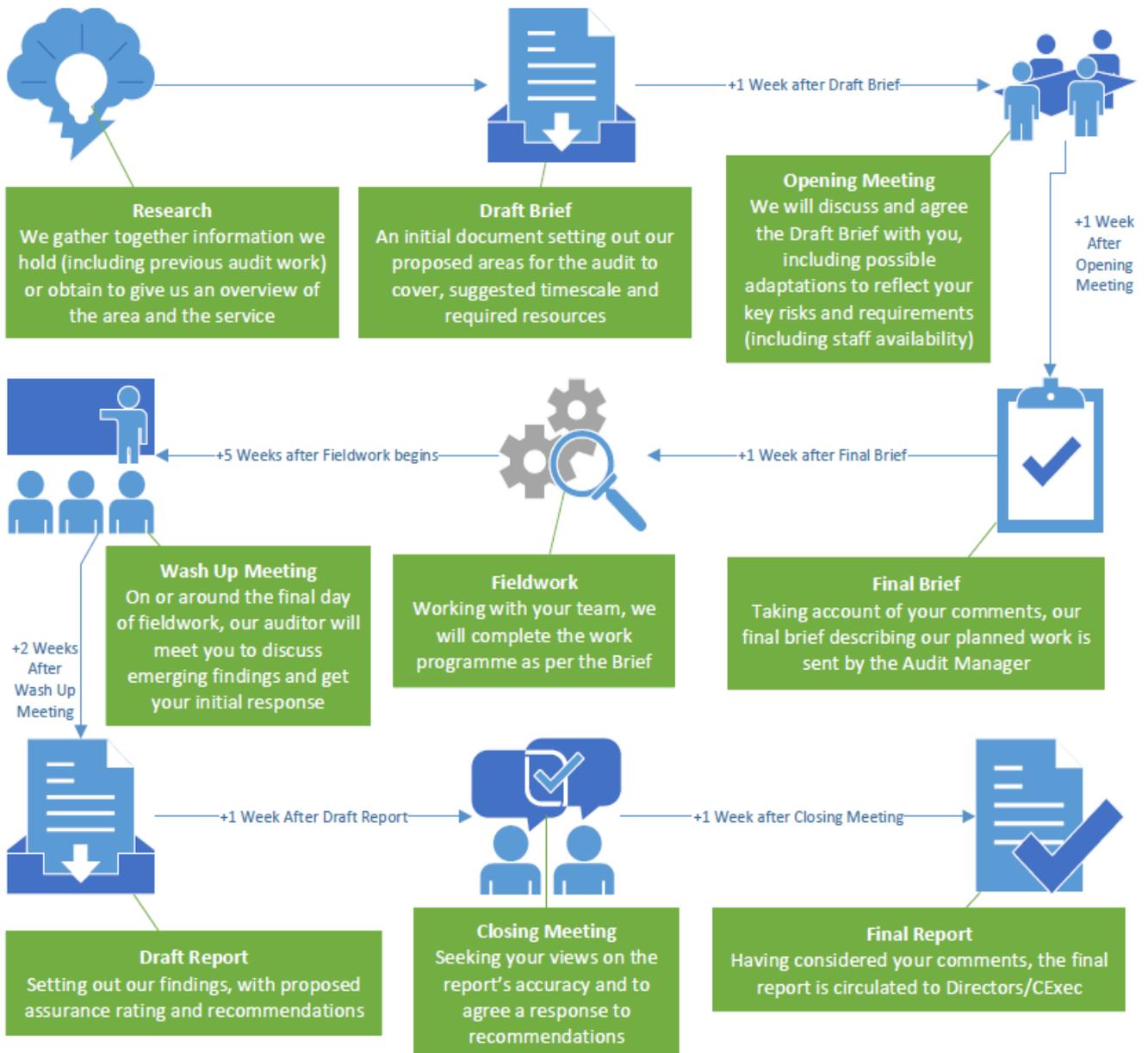
31. In addition to planned work, our plan must have flexibility to provide reactive or ad-hoc support. We have a pool of days available for the Council to draw on in such circumstances. Work allocated to these days includes:

Proposed consultancy 2020/21	100 days
<b>Consultancy</b> <ul style="list-style-type: none"> <li>• Attendance and contribution to officer groups, for instance information management group, wider leadership team and corporate governance group</li> <li>• Providing ad-hoc advice, guidance and support to officers and management</li> <li>• Completing housing benefit workbooks and testing for the External Auditors</li> <li>• These days will also assist when we are required to expand to audit scopes to cover concerns or interests identified during an audit, effectively allow days to be used as contingency</li> </ul>	

# MID KENT AUDIT

## Delivering the Audit & Assurance Plan

32. We work in full conformance with the Public Sector Internal Audit Standards. The illustration below shows the process we follow for 'typical' audit engagements.



# MID KENT AUDIT

## Overseeing Delivery

33. Throughout our work we undertake internal quality assessments and review. This includes specific management sign-off and checks on individual engagements in progress as well as periodic 'cold review' assessments. Through the latter process, we reflect on work completed to identify and take forward any learning to help us improve.
34. We also report progress on delivering the plan to this Committee part-way through the year. Internally, we monitor and report each month on various performance indicators detailing our progress. These updates are reported to the Shared Services Board (with Mark Green – Director of Finance & Business Improvement - as Maidstone's representative).

## Quality & Improvement Plan

35. Although in 2015 the IIA assessed us as fully conforming to the Standards, we have continued to challenge and update how we work. Through our internal assessments we have kept our full conformance with the Standards alongside being able to work more efficiently resulting in an increase in productive days by nearly 20% since 2015. This has all been without additional investment and only inflationary budget increases, meaning the 'cost per audit plan day' has fallen by almost 15% in real terms over the past 5 years.
36. We have been using Pentana Audit Management Software for nearly 2 years. As a service we have been paperless for over a decade, but Pentana has enabled us to deliver greater quality, consistency and efficiency in how we work. This is also visible during audit planning as we can manage and organise our risk assessments within a fully automated and flexible database of our entire audit universe.
37. For the year ahead our priority will be to address any matters arising from our EQA. Beyond those objectives our aim is to safeguard and standardise how we assess and improve our service in a full five-year plan looking ahead to our next external assessment in 2025. We will provide further details of this plan to Members alongside the EQA results in July.

# MID KENT AUDIT

## External Quality Assessment

38. 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. Members will already be aware that earlier in the year we commissioned CIPFA to conduct the EQA 2020 for the Audit Partnership.
39. That review is taking place across February and March 2020 and we are grateful to those Members who have contributed either by meeting our assessor or completing a survey. We expect the final report in late March and will report to Members alongside an action plan in July.

# 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 Maidstone specific entities on our current audit universe, followed by a record of audit audit history:

Service Area	Auditable Areas
MBC Bereavement Services	Cemeteries & Crematoria
MBC Building Control	Building Control Income Building Control
MBC Commissioning & Contracts	Contract Management Procurement & Commissioning
MBC Communications	Marketing Internal Communications Public Consultations Social Media Website
MBC Community Safety	Safeguarding Safety Partnerships CCTV & Monitoring
MBC Customer Services	Customer Services
MBC Democratic Services	Democracy
MBC Development Control	Pre-Application Planning Section 106 Income Conservation & Heritage Planning Enforcement Development Management
MBC Digital & Transformation	Project Management Social Media Website
MBC Environmental Enforcement	Environmental Enforcement
MBC Estate Management	Health & Safety Property Income Property Acquisition & Disposal Facilities Management
MBC Grounds Maintenance	Grounds Maintenance
MBC Housing	Homelessness Home Improvement Grants Rent Deposit Scheme
MBC Project Management	Project Management
MBC Public Health	Public Health

# MID KENT AUDIT

Service Area	Auditable Areas
MBC Finance	Budget Setting Budgetary Control Creditors (Accounts Payable) Debtors (Accounts Receivable) General Ledger Treasury Management Insurance Subsidiary Company Governance
MBC Leisure	Tourism Support Leisure Services Parks Theatre Operations
MBC Museums	Museum
MBC Policy & Governance	Information Management Performance Management Complaint Handling Corporate Governance Climate Emergency Response
MBC Regeneration & Economy	Economic Development Tourism Support
MBC Residential Property	Health & Safety Property Income
MBC Resilience	Business Continuity Emergency Planning
MBC Spatial & Strategic Planning	Strategic Planning
MBC Subsidiary Companies	Subsidiary Company Governance
MBC Waste Collection	Waste Collection Recycling
Non-MKS Shared Services	Environmental Health
Mid Kent HR	Absence Management Policy Compliance Recruitment Staff Performance Management Training & Development Workforce Planning Payroll & Expenses
Mid Kent Audit	Risk Management Counter Fraud
Mid Kent Revenues & Benefits	Council Tax Business Rates Compliance Housing Benefits

# MID KENT AUDIT

Service Area	Auditable Areas
Mid Kent ICT	IT Asset Management IT Backup & Recovery Network Security IT Development Technical Support
Mid Kent Legal Services	Declarations of Interest Legal Services
Mid Kent Planning	Planning Administration Land Charges

# MID KENT AUDIT

## Appendix I: Audit History

Service Area	Audit Project	Audit Year	Audit Rating
MBC Communications	MBC10(14/15) - Communications & Social Media	2014/15	Sound
MBC Democratic Services	MBC11(14/15) - Members' Allowances	2014/15	Sound
MBC Finance	MBC23(14/15) - Corporate Credit Cards	2014/15	Sound
MBC Finance	MBC08(14/15) - Business Rates Retention Scheme (Risk)	2014/15	Strong
MBC Finance	MBC09(14/15) - VAT Management	2014/15	Sound
MBC Finance	MBC17(14/15) - Bank Reconciliation	2014/15	Sound
MBC Finance	MBC28(14/15) - Accounts Payable (Creditors)	2014/15	Sound
MBC Leisure	MBC07(14/15) - Leisure Centre Contract	2014/15	Sound
MBC Policy & Governance	MBC15(14/15) - Data Protection	2014/15	Weak
MBC Resilience	MBC02(14/15) - Emergency Planning	2014/15	Weak
MBC Waste Collection	MBC12(14/15) - Waste Collection Contract	2014/15	Sound
Mid Kent HR	MBC20(14/15) - Members' & Officers' Declarations of Interest	2014/15	Weak
Mid Kent ICT	MBC06(14/15) - Computer Use Policy	2014/15	Sound
Mid Kent Legal Services	MBC20(14/15) - Members' & Officers' Declarations of Interest	2014/15	Weak
Mid Kent HR	MBC14(14/15) - Payroll	2014/15	Strong
Shared Revenues & Benefits	MBC22(14/15) - Business Rates (Systems audit)	2014/15	Strong
MBC Commissioning & Contracts	MBC/CF03(15/16) - Procurement	2015/16	Sound
MBC Community Safety	MBC/CG05(15/16) - Safeguarding	2015/16	Weak
MBC Community Safety	MBC/SR01(15/16) - Community Safety	2015/16	Sound
MBC Democratic Services	MBC/CG04(15/16) - Members' Allowances	2015/16	Sound

# MID KENT AUDIT

Service Area	Audit Project	Audit Year	Audit Rating
MBC Development Control	MBC/SR07(15/16) - Section 106	2015/16	Weak
MBC Environmental Enforcement	MBC/SR03(15/16) - Litter Enforcement	2015/16	Sound
MBC Finance	MBC/CF01(15/16) - Budget Setting	2015/16	Sound
MBC Finance	MBC/CF02(15/16) - Accounts Receivable (Systems Audit)	2015/16	Sound
MBC Grounds Maintenance	MBC/SR10(15/16) - Grounds Maintenance	2015/16	Sound
MBC Housing	MBC/SR04(15/16) - Temporary Accommodation	2015/16	Sound
MBC Leisure	MBC/CF04(15/16) - Mote Park & Cobtree Café	2015/16	Weak
MBC Policy & Governance	MBC/SR08(15/16) - Service Improvement	2015/16	Strong
MBC Resilience	MBC/CG01(15/16) - Business Continuity	2015/16	Weak
MBC Waste Collection	MBC/SR11(15/16) - MBC Garage	2015/16	Sound
Non-MKS Shared Services	MBC/SR05(15/16) - Licensing	2015/16	Sound
Mid Kent HR	MKS/SR01(15/16) - Learning & Development	2015/16	Sound
Mid Kent ICT	MKS/SR02(15/16) - ICT Network Controls	2015/16	Strong
Mid Kent HR	MKS/CF01(15/16) - Payroll	2015/16	Strong
Shared Revenues & Benefits	MKS/CF02(15/16) - Business Rates	2015/16	Strong
Shared Revenues & Benefits	MKS/CF03(15/16) - Council Tax	2015/16	Sound
MBC Bereavement Services	MBC-OR03(16-17) - Crematorium	2016/17	Sound
MBC Democratic Services	MBC-OR05(16-17) - Elections	2016/17	Sound
MBC Estate Management	MBC-OR06(16-17) - Facilities Management	2016/17	Sound
MBC Estate Management	MBC-OR13(16-17) - Health & Safety	2016/17	Weak
MBC Finance	MBC-CF01(16-17) - Accounts Payable	2016/17	Sound
MBC Finance	MBC-CF02(16-17) - General Ledger: Journals & Feeder Systems	2016/17	Sound

# MID KENT AUDIT

Service Area	Audit Project	Audit Year	Audit Rating
MBC Finance	MBC-CF03(16-17) - Treasury Management	2016/17	Sound
MBC Grounds Maintenance	MBC-OR09(16-17) - Public Conveniences	2016/17	Sound
MBC Leisure	MBC-OR07(16-17) - Hazlitt	2016/17	Weak
MBC Policy & Governance	MBC-CG04(16-17) - Performance Management	2016/17	Weak
MBC Policy & Governance	MBC-CG03(16-17) - Freedom of Information	2016/17	Sound
MBC Public Health	MBC-OR10(16-17) - Public Health	2016/17	Sound
Non-MKS Shared Services	MKS-OR04(16-17) - Residents' Parking	2016/17	Sound
Non-MKS Shared Services	MBC-OR12(16/17) - Park & Ride	2016/17	Weak
Mid Kent ICT	MKS-CG01(16-17) - ICT Controls & Access	2016/17	Sound
Mid Kent HR	MKS-CF01(16-17) - Payroll	2016/17	Strong
Shared Revenues & Benefits	MKS-CF02(16-17) - Housing Benefits	2016/17	Sound
Shared Revenues & Benefits	MKS-OR05(16-17) - Discretionary Housing Payments	2016/17	Sound
MBC Commissioning & Contracts	MBC-OR05(17-18) - Contract Management	2017/18	Weak
MBC Commissioning & Contracts	MBC-CF02(17-18) - Procurement	2017/18	Weak
MBC Communications	MBC-OR10(17-18) - Promotion & Marketing	2017/18	Sound
MBC Community Safety	MBC-OR01(17-18) - Animal Welfare Control	2017/18	Weak
MBC Democratic Services	MBC-OR09(17-18) - Member Training & Induction	2017/18	Sound
MBC Finance	MBC-OR08(17-18) - Insurance	2017/18	Sound
MBC Finance	MBC-CF01(17-18) - Accounts Receivable	2017/18	Weak
MBC Grounds Maintenance	MBC-OR11(17-18) - Street Scene	2017/18	Sound
MBC Housing	MBC-OR06(17-18) - Home Assistance Grants	2017/18	Sound
MBC Housing	MBC-OR07(17-18) - Homelessness	2017/18	Sound

# MID KENT AUDIT

Service Area	Audit Project	Audit Year	Audit Rating
MBC Policy & Governance	MBC-CG01(17-18) - Complaints	2017/18	Sound
MBC Regeneration & Economy	MBC-OR03(17-18) - Business Terrace	2017/18	Sound
MBC Resilience	MBC-CG03(17-18) - Emergency Planning	2017/18	Sound
MBC Subsidiary Companies	MBC-OR12(17-18) - Subsidiary Company Governance	2017/18	N/A
Non-MKS Shared Services	MKS-OR02(17-18) - Food Safety	2017/18	Sound
Non-MKS Shared Services	MKS-OR06(17-18) - Parking Income	2017/18	Sound
Shared Revenues & Benefits	MKS-OR01(17-18) - Debt Recovery Service	2017/18	Strong
Mid Kent HR	MKS-OR03(17-18) - HR Policy Compliance	2017/18	Sound
Mid Kent ICT	MKS-CG04(17-18) - IT Disaster Recovery	2017/18	Sound
Mid Kent Legal Services	MKS-OR05(17-18) - Legal Services	2017/18	Sound
Mid Kent HR	MKS-CF01(17-18) - Payroll	2017/18	Sound
Director of Mid Kent Services	MKS-OR04(17-18) - Land Charges	2017/18	Weak
Shared Revenues & Benefits	MKS-CF02(17-18) - Business Rates	2017/18	Strong
MBC Building Control	M19-AR04 - Building Control	2018/19	Sound
MBC Commissioning & Contracts	X19-IV03 - Procurement Fraud Risk Review	2018/19	N/A
MBC Development Control	M19-AR12 - Planning Enforcement	2018/19	Weak
MBC Digital & Transformation	M19-AR15 - Transformation	2018/19	Sound
MBC Finance	M19-AR03 - Budgetary Control	2018/19	Sound
MBC Finance	M19-AR01 - Accounts Payable	2018/19	Sound
MBC Housing	M19-AR09 - Housing Allocations	2018/19	Sound
MBC Museums	M19-AR11 - Museum Income Collection	2018/19	Sound
MBC Policy & Governance	X19-AR04 - General Data Protection Regulations	2018/19	N/A

# MID KENT AUDIT

Service Area	Audit Project	Audit Year	Audit Rating
MBC Regeneration & Economy	M19-AR10 - Markets	2018/19	Sound
MBC Spatial & Strategic Planning	M19-CN01 - Local Plan Project Review	2018/19	N/A
MBC Waste Collection	M19-AR06 - Commercial Waste	2018/19	Sound
Non-MKS Shared Services	X19-AR07 - Licensing Administration	2018/19	Sound
Shared Revenues & Benefits	X19-AR10 - Revs & Bens Compliance Team	2018/19	Sound
Mid Kent HR	X19-AR01 - Absence Management	2018/19	Sound
Mid Kent ICT	X19-AR03 - Cyber Security	2018/19	Sound
Mid Kent Legal Services	M19-AR07 - Declarations of Interest	2018/19	Weak
Mid Kent HR	X19-IV02 - Payroll Fraud Risk Review	2018/19	N/A
Shared Revenues & Benefits	X19-AR02 - Council Tax Reduction Scheme	2018/19	Sound
MBC Communications	M20-AR06 - Social Media	2019/20	Sound
MBC Estate Management	M20-AR03 - Health & Safety	2019/20	Weak
MBC Finance	X20-CON02 - Financial Resilience Index	2019/20	N/A
MBC Finance	M20-AR05 - Corporate Credit Cards	2019/20	Sound
MBC Leisure	M20-AR04 - Parks	2019/20	Sound
Non-MKS Shared Services	X20-AR02 - Civil Parking Enforcement	2019/20	Sound
Mid Kent HR	X20-AR05 - Recruitment	2019/20	Sound

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# MID KENT AUDIT

## Appendix II: Assurance Ratings

### Assurance Ratings 2020/21 (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 & STANDARDS COMMITTEE**

**16<sup>th</sup> March 2020**

### **Anti-Money Laundering Policy and Guidance**

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

#### **Executive Summary**

This report updates the Council's current Anti-Money Laundering Policy and guidance to various stakeholders of the Council on how to prevent, detect and report cases of fraud through money laundering. The first draft report was presented to this Committee on 13<sup>th</sup> January 2020, when it was agreed to review the document and return with an amended policy.

#### **Purpose of Report**

This report is for discussion and to adopt at this Committee.

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

1. That the Council's updated Anti-Money Laundering Policy is adopted and the Director of Finance and Business Improvement (S151 Officer) is confirmed as the Council's Money Laundering Reporting Officer (MLRO).

#### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	16 <sup>th</sup> March 2020

# Anti-Money Laundering Policy and Guidance

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, awareness of money laundering will support the Council's overall achievement of its aims by detecting and reporting fraud.	Interim Head of Finance
<b>Cross Cutting Objectives</b>	We do not expect the recommendations will by themselves materially affect achievement of cross cutting objectives. However, awareness of money laundering will support the Council's overall achievement of its aims by detecting and reporting fraud.	Interim Head of Finance
<b>Risk Management</b>	Already covered in the risk section	Interim Head of Finance
<b>Financial</b>	There are no financial implications to accepting this policy, however through staff, Members and contractors of the Council's awareness, this will hopefully reduce the risk of fraud against the Council.	Section 151 Officer & Finance Team
<b>Staffing</b>	None.	Interim Head of Finance
<b>Legal</b>	This report is drafted in compliance with the requirements of the Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017. The relevant obligations are referred to in the body of the report.	Team Leader (Corporate Governance), MKLS
<b>Privacy and Data Protection</b>	All information obtained for the purposes of money laundering checks and referrals must be kept (for at least five years) and processed in compliance with relevant Data Protection legislation.	Policy and Information Team
<b>Equalities</b>	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Policy & Information Manager
<b>Public Health</b>	We recognise that the recommendations will not negatively impact on population health or that of individuals.	Public Health Officer
<b>Crime and</b>	The recommendation seeks to reduce the risk of	Head of

<b>Disorder</b>	council services being used for money laundering. The Community Protection Team has been consulted regarding this.	Finance
<b>Procurement</b>	There are no procurement implications for this report, however procurement is at risk of infiltration from serious and organised crime and organised crime groups could be benefitting from public sector contracts.	Head of Finance Section 151 Officer

**2. INTRODUCTION AND BACKGROUND**

- 2.1 Money laundering involves the “cleaning” of illegal proceeds in order to disguise their criminal origin. The proceeds of criminal activity, usually cash, but also other illegally gained assets, are introduced into the organisation’s systems where they are processed, enabling them to leave the systems appearing to come from a legitimate source.
- 2.2 The Proceeds of Crime Act 2002, the Terrorism Act 2000 and Money Laundering Regulations 2017 place obligations on the Council to establish internal procedures to prevent the use of their services for money laundering and the prevention of terrorist financing. The Council must also appoint a Money Laundering Reporting Officer (MLRO) to receive disclosures of money laundering activity.
- 2.3 The previous policy drafted in October 2014 is required to be updated and adopted by this Committee due to the changes within the Money Laundering Regulations 2017. There is a more due diligence around checking perceived higher risk customers and where funds have been received, using a general risk based approach in respect to money laundering. These have been included within the updated policy as shown within **Appendix A**.
- 2.4 Accompanying this policy is a guidance document that sets out the procedures, which must be followed (for example reporting of suspicions of money laundering activity) to enable the Council to demonstrate compliance with its legal obligations.
- 2.5 The officer to receive disclosures about money laundering activity is the Money Laundering Reporting Officer (MLRO). The nominated officer must be someone within the Council, who
  - can be trusted with the responsibility
  - is senior enough to have access to all your customer files and records
  - can decide independently whether or not they need to report suspicious activities or transactions - a decision that could affect your customer relations
- 2.6 It is recommended that the nominated person for this role is the Director of Finance & Business Improvement (Section 151 Officer).
- 2.7 Whilst Local Authorities are not directly covered by the requirements of the Money Laundering Regulations 2017, guidance from finance and legal

professions, including the Chartered Institute of Public Finance and Accounting (CIPFA), indicates that public service organisations should comply with the underlying spirit of the legislation and regulations.

- 2.8 The draft policy was previously taken to the Audit, Governance and Standards Committee on 13<sup>th</sup> January 2020, where it was agreed that the document would be reviewed in light of comments from committee members. The amended document can be found at Appendix A.
- 2.9 The main amendments to the policy following the review are as follows:
- 2.2 - Removing Mark Green's name as the MLRO and keeping it as the Director of Finance & Business Improvement. This means the policy will not need amending if there are subsequent staff changes.
  - 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.
  - 4.2 - Keeping a register of all cash transactions over £2,000 to review who is making large cash payments to the Council. These individuals may then be contacted to ascertain the reasons of paying large amounts of cash and to find alternative ways to pay.

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### 3. AVAILABLE OPTIONS

- 3.1 **Option 1:** The Committee could decide not to adopt the policy. However, the Chartered Institute of Public Finance and Accounting (CIPFA), indicates that public service organisations should comply with the underlying spirit of the requirements of the Money Laundering Regulations 2017 in establishing internal procedures to prevent the use of their services for money laundering and the prevention of terrorist financing. The Council must also appoint a Money Laundering Reporting Officer (MLRO) to receive disclosures of money laundering activity.
- 3.2 **Option 2:** Subject to any legal obligations placed upon the Council, the Committee could amend the draft policy.
- 3.3 **Option 3:** The Committee could agree the attached policy. The attached policy has been produced in line with current guidance from the Proceeds of Crime Act 2002, the Terrorism Act 2000 and Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.

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### 4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The recommended option is Option 3, to adopt the Anti-Money Laundering Policy & Guidance and to appoint the Director of Finance and Business Improvement as the Money Laundering Reporting Officer (MLRO).
- 4.2 As stated above, the policy has been produced in line with current guidance from the Proceeds of Crime Act 2002, the Terrorism Act 2000 and Money Laundering Regulations 2017.

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## **5. RISK**

5.1 This report discusses the risk of money laundering within the Council and is designed to make all relevant stakeholders aware of what constitutes money laundering and the procedures for reporting such incidents.

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

6.1 None.

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

7.1 Once the policy has been adopted by this Committee, it will be communicated to all relevant staff within the Council.

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## **8. REPORT APPENDICES**

- Appendix A: Anti-Money Laundering Policy & Guidance
- 

## **9. BACKGROUND PAPERS**

9.1 This report has been drafted from guidance from the following publications:

- The Proceeds of Crime Act 2002  
<http://www.legislation.gov.uk/all?title=Proceeds%20of%20crime>
- The Terrorism Act 2000  
<http://www.legislation.gov.uk/all?title=terrorism%20act>
- The Money Laundering Regulation 2017  
<http://www.legislation.gov.uk/uksi/2017/692/made>
- HM Treasury <https://www.gov.uk/government/publications/anti-money-laundering-legislation-guidance-notes>
- Law Society <http://www.lawsociety.org.uk/advice/anti-money-laundering/>
- National Crime Agency <http://www.nationalcrimeagency.gov.uk/>

# Anti-Money Laundering Policy & Guidance

## 1. Introduction

- 1.1. Money laundering involves the “cleaning” of illegal proceeds in order to disguise their criminal origin. The proceeds of criminal activity, usually cash, but also other illegally gained assets, are introduced into the organisation’s systems where they are processed, enabling them to leave the systems appearing to come from a legitimate source.
- 1.2. Historically, legislation seeking to prevent the laundering of the proceeds of criminal activity was aimed at professionals in the financial and investment sector. However, it was subsequently recognised that those involved in criminal conduct were able to “clean” the proceeds of crime through a wider range of business and professional activities.
- 1.3. New obligations in respect of money laundering were therefore imposed by the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2017 which broaden the definition of money laundering and increase the range of activities within the statutory control framework. In particular, the duty to report suspicions of money laundering is strengthened and criminal sanctions imposed for failure to do so. There are also obligations under the Terrorism Act 2000.
- 1.4. The Council has therefore adopted a Money Laundering Policy, to comply with its requirements under the The Money Laundering, Terrorist Financing and Transfer of Funds 2017, the Proceeds of Crime Act 2002 and the Terrorism Act 2000.
- 1.5. The Council’s policy is to do all it can to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.
- 1.6. It is important that all staff who are involved in processing financial transactions are aware of the issues surrounding money laundering, and who they should go to for further advice and guidance.

## 2. Roles and Responsibilities

- 2.1. This policy applies to all employees, members and contractors of the Council, and aims to maintain the high standards of conduct which currently exist by preventing criminal activity through money laundering.
- 2.2. The officer to receive disclosures about money laundering activity is the Money Laundering Reporting Officer (MLRO). The Council has nominated the Director of Finance and Business Improvement (S151) to undertake this role. The roles and responsibilities of the MLRO are as follows:

- To thoroughly understand the requirements of the Anti-Money Laundering legislation
- To understand the internal organisation and the degree/varieties of risk, including general risk assessment on the organisation
- To determine what constitutes a suspicious transaction
- To determine what is required in making a report
- To identify when a greater due diligence is required in respect of a customer, based on a risk-based approach;
- To be aware of who to report to
- To be aware of the "consent" provisions
- To conduct investigations
- To be aware of the criminal offences under the Act including "tipping off" and interfering with an investigation

2.3. Any disclosures will be notified to Internal Audit who will liaise with the officer identified above.

### **3. Local Authority Anti-Money Laundering Regulations**

3.1. The 2007 regulations require that 'relevant businesses' adopt a number of key measures to counter money laundering. Whilst local authorities are not separately identified in the list of 'relevant businesses' there are some local authority activities that could come within the scope of the regulations. It is mainly accountancy and audit services, and the financial, company and property transactions undertaken by Legal Services. However, the safest way to ensure compliance with the law is to apply them to all areas of work undertaken by the Council.

3.2. The following are examples of key factors which may indicate that money laundering activity is taking place:

- Large volume/value cash transactions (e.g. sale of land/buildings) – sale proceeds could be received in cash. Identification procedures should apply when a client seeks to make a payment of £5,000 or the equivalent amount in any other currency or greater, and/or where two or more transactions appear to be linked and involve a total payment of £5,000 or greater.
- Fraudulent Claims – if an accident has not actually taken place but a claim is made then monies received would be proceeds of crime.
- Payments are received from unexpected sources.
- The cancellation or reversal is made of a previous transaction.
- A substantial payment in cash is received from a new customer.

3.3. It is anticipated that there will only be a small number of occasions when relevant events are identified. If in doubt consult the nominated reporting officer (**see Appendix I**) who will help you decide.

3.4. The size and scope of the activities of local authorities are such that few, if any, are likely to be immune from the risks surrounding money laundering. Chartered Institute of Public Finance and Accountancy (CIPFA) believes all public service organisations should embrace the underlying principles behind the money laundering legislation and regulations and put in place anti-money laundering policies, procedures and reporting arrangements, appropriate and proportionate to their activities.

#### **4. Suggested Methods of Prevention**

4.1. Cash payments of £5,000 or greater should not be accepted, and this should be made clear by way of notice in the reception area.

4.2. A register of all cash payments of £2,000 or above must be kept for at least 5 years. Details should include:

- Name
- Address
- Details of payment
- Reference

4.3. Identification procedures should apply in situations where payments are received from an unexpected source, where a new customer makes a substantial payment in cash, or where a new business relationship is established with a company or individual with whom the Council has not dealt before.

4.4. There are a number of methods of checking identification:

- Seeking references (trade, personal or bank) from reputable organisations or individuals with whom the subject of the enquiry has had dealings in the past.
- In the case of a company, asking to see audited accounts or checking their details with the Register of Companies (Companies House).
- In the case of individuals asking to see some independent evidence of their identity and address, for example a passport or a driving licence.
- Seeking independent verification of the source of funds being paid to the Council.
- Some companies may require further checks due to the level of risk for each one. Please see your Senior Officer or the MRLO for further assistance.

4.5. Once identification has been verified, the evidence must be retained for at least five years from the end of the business relationship or the one-off transaction(s).

## 5. Reporting Suspicions of Money Laundering

- 5.1. Where you know or suspect that money laundering activity is taking/has taken place, or you are concerned that your involvement in the matter may amount to a prohibited act under the legislation, you must disclose to the MLRO this suspicion or concern as soon as practicable. Your disclosure should be made to the MLRO on the pro-forma attached at **Appendix II**.
- 5.2. Once you have reported the matter to the MLRO you must follow any directions they may give you. You must not make any further enquiries into the matter yourself and you must not proceed with the transaction until given the all clear. Any necessary investigation will be undertaken by the National Crime Agency (NCA). All employees will be required to cooperate with the MLRO and the authorities during any subsequent money laundering investigation.
- 5.3. If an employee suspects money laundering and does nothing about it, they can be in breach of the provisions of the legislation, and related Council procedures. Whilst the risk to the Council is low, it is important that all employees are aware of their responsibilities. The key responsibility of all employees is to promptly report any suspicion of money laundering to the MLRO.

## 6. Consideration of a disclosure by the Money Laundering Reporting Officer

- 6.1. Upon receipt of a disclosure report, the MLRO must note the date of receipt on their section of the report and acknowledge receipt of it. The MRLO should also advise you of the timescale within which you can expect a response.
- 6.2. The MLRO will consider the report and any other available internal information they think relevant e.g.:
  - reviewing other transaction patterns and volumes;
  - the length of any business relationship involved;
  - the number of any one-off transactions and linked one-off transactions;
  - any identification evidence held;
- 6.3. and undertake such other reasonable inquiries they think appropriate in order to ensure that all available information is taken into account in deciding whether a report to NCA is required (such enquiries being made in such a way as to avoid any appearance of tipping off those involved). The MLRO may also need to discuss the report with you.
- 6.4. Once the MLRO has evaluated the disclosure report and any other relevant information, they must make a timely determination as to whether:
  - there is actual or suspected money laundering taking place; or
  - there are reasonable grounds to know or suspect that is the case; and

- whether they need to seek consent from the NCA for a particular transaction to proceed.
- 6.5. Where the MLRO does so conclude, then they must disclose the matter as soon as practicable to NCA on their standard report form and in the prescribed manner, unless they have a reasonable excuse for non-disclosure to the NCA (for example, if you are a lawyer and you wish to claim legal professional privilege for not disclosing the information).
- 6.6. Where the MLRO suspects money laundering but has a reasonable excuse for nondisclosure, then they must note the report accordingly; they can then immediately give their consent for any ongoing or imminent transactions to proceed.
- 6.7. In cases where legal professional privilege may apply, the MLRO must liaise with the legal adviser to decide whether there is a reasonable excuse for not reporting the matter to NCA.
- 6.8. Where consent is required from NCA for a transaction to proceed, then the transaction(s) in question must not be undertaken or completed until NCA has specifically given consent, or there is deemed consent through the expiration of the relevant time limits without objection from NCA.
- 6.9. Where the MLRO concludes that there are no reasonable grounds to suspect money laundering then they shall mark the report accordingly and give their consent for any ongoing or imminent transaction(s) to proceed.
- 6.10. All disclosure reports referred to the MLRO and reports made by them to NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of five years.
- 6.11. The MLRO commits a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to NCA.

## **7. Further Guidance and Advice**

- 7.1. If you have any queries or require clarification on any of the issues in the policy please contact the MLRO in the first instance.

## 8. Useful Links

- The Proceeds of Crime Act 2002  
<http://www.legislation.gov.uk/all?title=Proceeds%20of%20crime>
- The Terrorism Act 2000  
<http://www.legislation.gov.uk/all?title=terrorism%20act>
- The Money Regulation 2017  
<http://www.legislation.gov.uk/uksi/2017/692/made>
- HM Treasury <https://www.gov.uk/government/publications/anti-money-laundering-legislation-guidance-notes>
- Law Society <http://www.lawsociety.org.uk/advice/anti-money-laundering/>
- National Crime Agency <http://www.nationalcrimeagency.gov.uk/>

## **PROCEEDS OF CRIME (ANTI-MONEY LAUNDERING) – MAIDSTONE BOROUGH COUNCIL'S AND YOUR OWN PERSONAL RESPONSIBILITIES**

### **PURPOSE**

These notes are important. They are designed to help you familiarise yourself with the legal and regulatory requirements relating to money laundering, as they affect both the organisation and you personally.

### **WHAT IS MONEY LAUNDERING?**

Money laundering is the term used for a number of offences involving the proceeds of crime or terrorist funds. The following acts constitute the act of money laundering:

- concealing, disguising, converting, transferring or removing criminal property from the UK (Section 327 POCA);
- entering into or becoming concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property (Section 328 POCA);
- acquiring criminal property, using criminal property; or possession of criminal property (Section 329 POCA).
- failure to report a suspicion of money laundering. If during the course of business an employee or councillor develops knowledge or suspicion (or has reasonable grounds for doing so) that another person is engaged with money laundering, but said employee or councillor does not make the required disclosure as soon as is practicable (Section 330 POCA)

Although the term 'money laundering' is generally used when describing the activities of organised crime – for which the legislation and regulations were first and foremost introduced – to most people who are likely to come across it or be affected by it, it involves a suspicion that someone they know, or know of, is benefiting financially from dishonest activities.

'Criminal property' is defined very widely in the law relating to money laundering. It includes not only the proceeds of crime committed by somebody else, but also possession of the proceeds of an individual's own crime – for example, the retention of monies from non-payment of income tax. It does not matter how small the amount of money involved is. It also includes the proceeds of crimes that take place abroad.

### **WHAT LAWS EXIST TO CONTROL MONEY LAUNDERING?**

In recent years, new laws have been passed which shift significantly the burden for identifying acts of money laundering away from government agencies and more towards organisations and their employees. They prescribe potentially very heavy penalties, including imprisonment, for those who are convicted of breaking the law. These laws are

important and a list of them appears at the end of these notes, together with a list of useful websites.

### **WHAT IS THIS ORGANISATION'S POLICY ON MONEY LAUNDERING?**

Our policy is to do all we can to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases. We cannot stress too strongly, however, that it is every member of staff's responsibility to be vigilant.

### **WHAT ARE THE MAIN MONEY LAUNDERING OFFENCES?**

There are four principal offences – concealing, arranging, acquisition/use/possession and failure to report. These are dealt with under sections 327 to 330 of the Proceeds of Crime Act 2002.

- Concealing (s.327) is where someone knows or suspects a case of money laundering, but conceals or disguises its existence.
- Arranging (s.328) is where someone involves themselves in an arrangement to assist in money laundering.
- Acquisition (etc) (s.329) is where someone seeks to benefit from money laundering by acquiring, using or possessing the property concerned.
- Failure to report (s.330) if a person knows or suspects or has reasonable grounds for knowing or suspecting that another person is engaged in money laundering, but fails to report this, that person has committed an offence.

There is a 'third party' offence – 'tipping-off'. Tipping off is where someone informs a person or people who are, or are suspected of being, involved in money laundering, in such a way as to reduce the likelihood of their being investigated, or prejudicing an investigation.

All the money laundering offences may be committed by an organisation or by the individuals working for it.

### **WHAT ARE THE IMPLICATIONS FOR THE COUNCIL AND ITS STAFF?**

The Council has accepted the responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained. The Council has also implemented procedures for reporting suspicious transactions and, if necessary, making an appropriate report to the NCA.

The consequences for staff or committing an offence are potentially very serious. Whilst it is considered most unlikely that a member of staff would commit one of the three principal offences, the failure to disclose a suspicion of a case of money laundering is a serious offence in itself, and there are only very limited grounds in law for not reporting a suspicion.

Whilst stressing the importance of reporting your suspicions, however, you should understand that failure to do so is only an offence if your suspicion relates, in the event, to an actual crime.

### **WHAT ARE THE PENALTIES?**

Money laundering offences may be tried at a magistrate's court or in the Crown Court, depending on the severity of the suspected offence. Trials at the former can attract fines of up to £5,000, up to six months in prison, or both. In a Crown Court, fines are unlimited, and sentences from two to 14 years may be handed out.

### **WHAT SHOULD I DO IF I SUSPECT A CASE OF MONEY LAUNDERING?**

You should report the case immediately to the MLRO using the form in Appendix II. The MLRO will decide whether the transaction is suspicious and whether to make a report to the NCA. There is no clear definition of what constitutes suspicion – common sense will be needed. If you are considered likely to be exposed to suspicious situations, you will be made aware of these by your senior officer and, where appropriate, training will be provided.

### **SUMMARY**

Robust money laundering procedures are essential if the Council and its staff are to comply with our responsibilities and legal obligations. It falls to you as a Councillor or a member of the Council's staff, as well as to the Council itself, to follow these procedures rigorously.

**Confidential**  
**Report to the Money Laundering Reporting Officer**  
**Report of Money Laundering Activity**

To: **Money Laundering Reporting Officer**

<b>Report from</b>	
Staff member's name	
Directorate / Department	
Details of suspected offence	
Names and address of the persons involved (If a company/public body please include details of the nature of their business)	
Nature, value, timing of activity involved (Please include full details e.g. what, when, where, how)	
Nature of suspicions regarding such activity	
Has any investigation been undertaken?	
Have you discussed your suspicion with anyone else?	
Signed and dated	

<b>For completion by MLRO</b>	
Date received	
Date acknowledged	
Unique case reference no.	
Are there reasonable grounds for suspecting money laundering activity?	
If yes, confirm date of report to NCA	
Is consent required from the NCA to any on-going or imminent transactions which would otherwise be prohibited act? If yes please confirm full details in the box.	
Date consent received from NCA	
Date consent given to employee for transaction to proceed	
If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to the NCA, please set out the reason(s) for non-disclosure	
Date consent given by you to the employee for transaction to proceed.	
Signed and dated	
<b>THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS</b>	

## Audit, Governance & Standards Committee

**16 March 2020**

### External Audit Plan 2019/20

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

#### **Executive Summary**

This report from the Council's External Auditor, Grant Thornton, sets out the planned approach to delivering the audit of the 2019/20 financial statements and value for money conclusion.

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

#### **Purpose of Report**

Committee members are asked to note this report.

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

1. That the external auditor's audit plan, attached at Appendix 1 be noted.
2. That the revised audit fee for 2019/20 of £46,366 be noted.

#### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	16 March 2020

# External Audit Plan 2019/20

## 1. 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 ability to discharge its responsibilities in relation to the 2019/20 financial statements audit and value for money conclusion.	Ellie Dunnet, Head of Finance
<b>Cross Cutting Objectives</b>	The recommendations set out above will not have any material impact on the cross cutting objectives.	Ellie Dunnet, Head of Finance
<b>Risk Management</b>	This report is presented for information only and has no decisions which give rise to risk management implications.	Ellie Dunnet, Head of Finance
<b>Financial</b>	Paragraph 4.2 details the proposed increase in scale fee for 2019/20 audit work, from £38,866 to £46,366.	Ellie Dunnet, Head of Finance
<b>Staffing</b>	No implications identified.	Ellie Dunnet, Head of Finance
<b>Legal</b>	The Local Audit and Accountability Act 2014 sets out the framework for auditing of local authority's accounts.  It is a function of the Audit, Governance and Standards Committee to comment on the scope and depth of external audit work. Consideration of this report accords with that function.	Keith Trowell, Team Leader, (Corporate Governance), MKLS
<b>Privacy and Data Protection</b>	None identified.	Ellie Dunnet, Head of Finance
<b>Equalities</b>	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Ellie Dunnet, Head of Finance
<b>Public Health</b>	No implications identified.	Ellie Dunnet, Head of Finance
<b>Crime and Disorder</b>	No implications identified.	Ellie Dunnet, Head of Finance

<b>Procurement</b>	No implications identified.	Ellie Dunnet, Head of Finance
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## **2. INTRODUCTION AND BACKGROUND**

- 2.1 The external auditor produces an annual audit plan for the financial statements audit opinion and value for money conclusion. As in previous years this work will be undertaken by Grant Thornton, the appointed auditors. A copy of the plan, which includes the outcomes of work undertaken to date, is attached at Appendix 1.

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## **3. AVAILABLE OPTIONS**

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

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

- 4.1 The committee is asked to note this 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, the results of the work undertaken to date and the anticipated audit fee. It is considered appropriate for the committee to receive this information at this time.
- 4.2 The committee is also asked to note the revised audit fee of £46,366 which represents an increase of 19.3% compared to the original scale fee reported to the committee in July 2019 (£38,866). The fee variation has arisen from changes in legislation, accounting standards and regulatory requirements which increase the amount of work which the audit team are required to undertake. Further details are provided at page 15 of the auditor's report (Appendix 1). Scale fees are set by Public Sector Audit Appointments Ltd., and Grant Thornton are in the process of seeking approval for these variations. In the event that issues are identified as a result of audit work, further fee increases may be incurred by the Council.

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## **5. RISK**

- 5.1 This report is presented for information only and has no decisions which give rise to risk management implications.

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

6.1 No consultation has been taken in relation to this report.

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

7.1 Next steps are outlined within Appendix 1.

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## **8. REPORT APPENDICES**

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

- Appendix 1: External Audit Plan 2019/20
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## **9. BACKGROUND PAPERS**

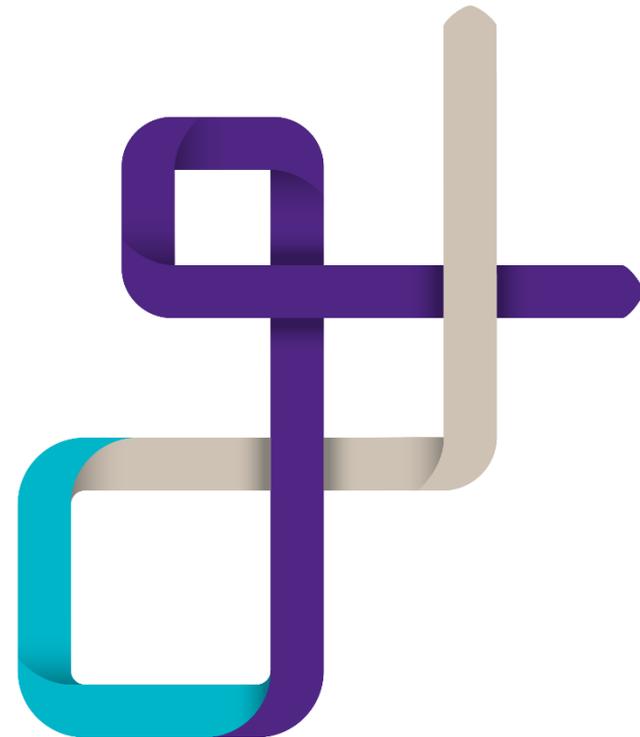
None



# External Audit Plan

*Year ending 31 March 2020*

Maidstone Borough Council  
16 March 2020



# Contents



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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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# 1. Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Maidstone Borough Council ('the Authority') 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 [insert name of organisation]. 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 :

- Authority and group's 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 Authority 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 Authority's business and is risk based.

<b>Group Accounts</b>	The Authority is required to prepare group financial statements that consolidate the financial information of Maidstone Property Holdings Limited.
<b>Significant risks</b>	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> <li>• Valuation of land and buildings</li> <li>• Valuation of net pension fund liability</li> <li>• Management override of controls</li> <li>• Fraudulent reporting in revenue recognition which we have rebutted</li> </ul> <p>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.</p>
<b>Materiality</b>	We have determined planning materiality to be £1.9m for the group and £1.8m (PY £1.8m) for the Authority, which equates to 1.9% 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 £90k (PY £91.6k).
<b>Value for Money arrangements</b>	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none"> <li>• Overall Financial Position and financial resilience</li> </ul>
<b>Audit logistics</b>	<p>Our interim visit took 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 audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £46,366 (PY: £44,866) for the Authority, subject to the Authority meeting our requirements set out on page 13.</p>
<b>Independence</b>	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..

## 2. Key matters impacting our audit

### Factors

#### The wider economy and political uncertainty

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

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty (update as appropriate). The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

#### Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

#### First time consolidation of subsidiary

Although Maidstone Property Holdings has been a subsidiary of the Authority for a number of years it has not previously been consolidated on the basis of materiality. The decision has been made to consolidate this year as the subsidiary in the expectation that the subsidiary will become material in the near future.

#### Implementation of IFRS 16 - Leases

The public sector will implement this standard from 1 April 2020. Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.

In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements.

### 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 group and will review related disclosures in the financial statements.
- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance and Business Improvement and is subject to PSAA agreement.
- We will review the consolidation process that has been undertaken and the group financial statements and disclosures
- We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020 and test a sample of lease obligations to determine whether they have been accounted for appropriately under the new requirements.

### 3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
<b>Maidstone Borough Council</b>	Yes		See risks on pages 6 to 9	Full scope UK statutory audit performed by Grant Thornton UK LLP
<b>Maidstone Property Holdings Limited</b>	No		None	Analytical review performed by Grant Thornton UK LLP.

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#### Key changes within the group:

- Although Maidstone Property Holdings has been a subsidiary of the Authority for a number of years it has not previously been consolidated on the basis of materiality. The decision has been made to consolidate this year as the subsidiary in the expectation that the subsidiary will become material in the near future.

#### Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

## 4. 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	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
74 Valuation of land and buildings	Group and Authority	<p>The group 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 Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used</p> <p>.</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>• write to the valuer to confirm 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 group'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>
		<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 Authority 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>
Management over-ride of controls	Group and Authority		

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Group and Authority	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£77.6 million in the Authority's prior year balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability 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>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

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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 Report in July 2020.

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<p>The revenue cycle includes fraudulent transactions (rebutted)</p>	<p>Group and Authority</p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul>	<p>Therefore we do not consider this to be a significant risk for the Authority</p>

## 5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)</b>	<b>Group and Authority</b>	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements.</li> <li>Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC <a href="#">Local Authority Leasing Briefings</a>.</li> </ul>
		<p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	
<b>Accruals</b>	<b>Group and Authority</b>	<p>In our 2018-19 Audit Findings Report we reported that during creditor and accruals testing we had identified items which had been incorrectly accrued at year end resulting in a recommendation to ensure that all accruals are reviewed by the budget holders at year end to ensure they remain valid and are accrued at the appropriate level based on supporting information.</p> <p>We have therefore identified accruals as a risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Obtain a list of the year end accruals and test a sample to supporting evidence to ensure they are correctly accounted for</li> <li>Follow up on the prior year recommendation and report progress</li> </ul>
<b>Accounting for the consolidation of the subsidiary</b>	<b>Group only</b>	<p>In 2019-20, the Authority will be consolidating their subsidiary, Maidstone Property Holdings Ltd, for the first time.</p> <p>We have therefore identified the accounting transactions associated with the consolidation of Maidstone Property Holdings Limited and the creation of group accounts as a risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Review consolidation methodology and adjustments required</li> <li>Review the group financial statement to ensure completeness of group disclosures</li> </ul>

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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 Report in July 2020.

## 6. 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 the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 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.

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### 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 group's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

# 7. 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

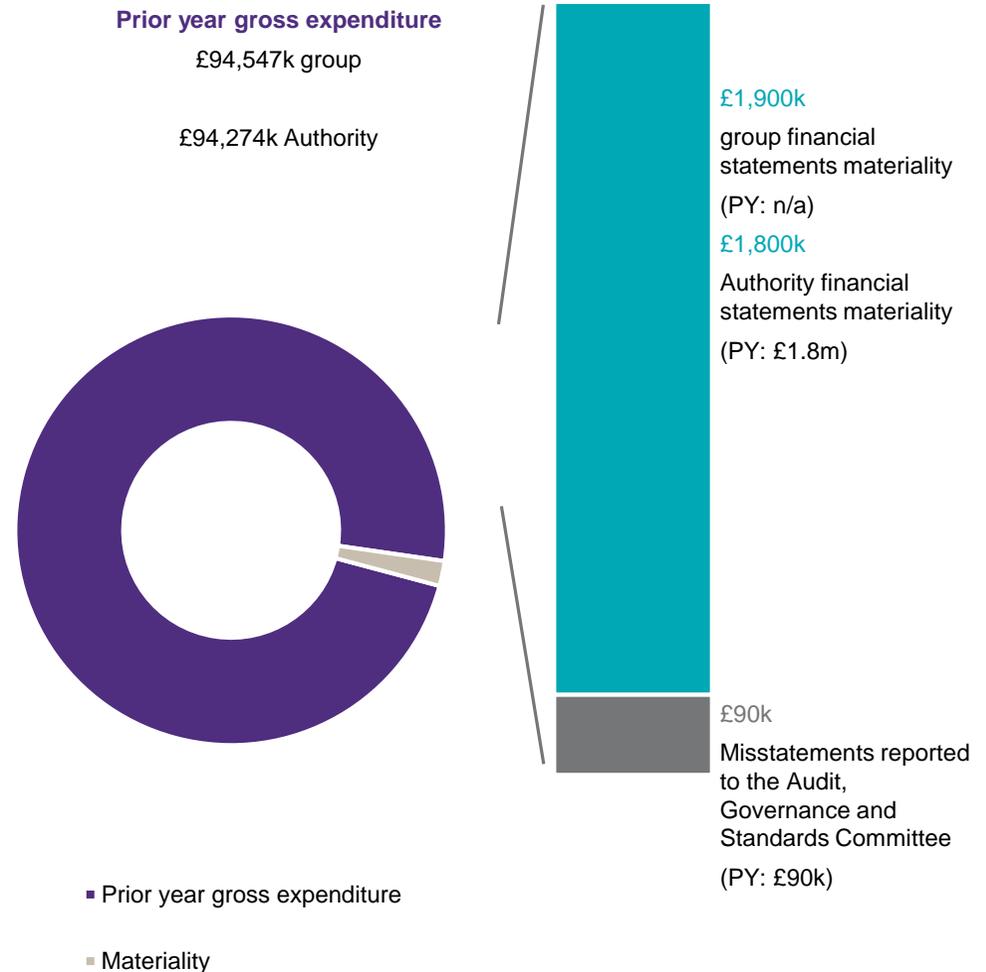
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1,900k for the group and £1,800k (PY £1,800k) for the Authority, which equates to 1.9% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for related party transactions, exit packages and senior office remuneration.

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, Governance and Standards 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 group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £90k (PY £90k).

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.



## 8. Value for Money arrangements

### Background to our VFM approach

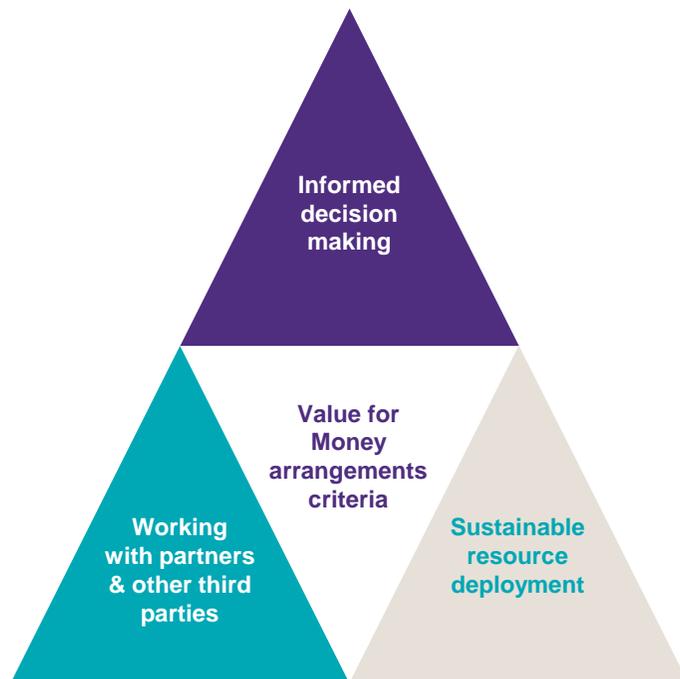
The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

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:

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### 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 and Financial Resilience

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). The Council also plans to enter into significant levels of borrowing over the next few years.

We propose to:

- review the assumptions behind the latest MTFS, covering the period up to March 2025;
- consider the 2019-20 budget outturn, and any implications this may have for the MTFS, along with the latest outturn against the 2020-21 budget
- 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
- review the capital strategy and discuss with management the proposals for debt management and the ability of the Council to meet its commitments

## 9. Audit logistics & team



### Paul Dossett, Key Audit Partner

Responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Board.



### Tina James, Audit Manager

Responsible for overall audit management, quality assurance of audit work and liaison with the Board.

### Ke Ma, Audit Incharge

Ke will lead the onsite team and will be the day to day contact for the audit. Ke will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments

### Client responsibilities

Where 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. 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 to the agreed timescales. In addition, delayed audits will incur additional audit fees.

### Our requirements

To minimise the risk of a delayed audit, 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.

# 10. Audit fees

## Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Finance and Business Improvement and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
 Council Audit	£50,475	£44,866	£46,366

### Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

# Audit fee variations – Further analysis

## Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
<b>Scale fee</b>	38,866	
<b>Raising the bar</b>	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
<b>Revisions – valuation of net pension liabilities under International Auditing Standard (IAS) 19</b>	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
<b>PPE Valuation – work of experts</b>	1,750	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
<b>IFRS 16 implementation and corresponding disclosure required in 19/20 under IAS8</b>	1,500	We will be required to perform additional work to audit the additional disclosure required in relation to IFRS 16 Leases and the consolidation of the group accounts
<b>Revised scale fee (to be approved by PSAA)</b>	<b>46,366</b>	

# 11. 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.

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Service	£	Threats	Safeguards
<b>Audit related:</b>			
Certification of Housing Benefits subsidy	22,000 (2018/19 fee)	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 was £22,000 in 2018/19 in comparison to the total scale 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.

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 group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Governance and Standards Committee. 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.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

# Appendix A: Audit Quality – national context

## What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

## Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

## What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

## What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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## Audit, Governance & Standards Committee

**16 March 2020**

### External Audit – Progress Report & Sector Update

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

#### **Executive Summary**

Committee members are invited to consider the report of the external auditor which provides an update on progress with the 2019/20 audit and offers a summary of emerging national issues and developments of relevance to the local government sector.

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

#### **Purpose of Report**

The committee are asked to note this report.

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

1. That the progress report attached at Appendix 1 be noted.

#### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	16 March 2020

# External Audit – Progress Report & Sector Update

## 1. 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 ability to discharge its responsibilities in relation to the 2019/20 financial statements audit and value for money conclusion.	Ellie Dunnet, Head of Finance
<b>Cross Cutting Objectives</b>	The recommendations set out above will not have any material impact on the cross cutting objectives.	Ellie Dunnet, Head of Finance
<b>Risk Management</b>	This report is presented for information only and has no decisions which give rise to risk management implications.	Ellie Dunnet, Head of Finance
<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.	Ellie Dunnet, Head of Finance
<b>Staffing</b>	No implications identified.	Ellie Dunnet, Head of Finance
<b>Legal</b>	The Local Audit and Accountability Act 2014 sets out the framework for auditing local authority's Accounts. It is a function of the Audit, Governance and Standards Committee to comment on the scope and depth of external audit work. Consideration of this report accords with that function.	Keith Trowell, Team Leader (Corporate Governance), MKLS
<b>Privacy and Data Protection</b>	None identified.	Ellie Dunnet, Head of Finance
<b>Equalities</b>	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Ellie Dunnet, Head of Finance

<b>Public Health</b>	No implications identified.	Ellie Dunnet, Head of Finance
<b>Crime and Disorder</b>	No implications identified.	Ellie Dunnet, Head of Finance
<b>Procurement</b>	No implications identified	Ellie Dunnet, Head of Finance

**2. INTRODUCTION AND BACKGROUND**

- 1.1 External audit services 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 1 provides an update on progress with the 2019/20 audit and informs committee members of a number of relevant emerging issues and developments.

**3. AVAILABLE OPTIONS**

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

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

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

**5. RISK**

- 5.1 This report is presented for information only and has no decisions which give rise to risk management implications.

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

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

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

7.1 Next steps are outlined within Appendix 1.

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## **8. REPORT APPENDICES**

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

- Appendix 1: Audit Progress Report and Sector Update, March 2020
- 

## **9. BACKGROUND PAPERS**

None

# Audit Progress Report and Sector Update

Maidstone Borough Council  
Year ending 31 March 2020

16 March 2020



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# Introduction



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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 March 2020

## Financial Statements Audit

We began our planning for the 2019/20 audit in December, and we began our interim audit in January 2020. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Early work on emerging accounting issues
- Early substantive testing

The results of our work to date are included in this report.

In March we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We will be performing early work on emerging accounting issues, such as IFRS 16 and the group accounting, in March 2020.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 31 July 2020.

## 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 will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by 31 July 2020.

The NAO has consulted on a new Code of Audit Practice and published a draft version. Subject to Parliamentary approval the new Code will come into force no later than 1 April 2020 and includes significant changes to the auditor's Value for Money work. Please see page 9 for more details.

# Progress at March 2020 (Cont.)

## Other areas

### Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 claim was completed in December 2019.

### Meetings

We met with Finance Officers in October 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.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

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 Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit, Governance and Standards Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p><b>Fee Letter</b></p> <p>Confirming audit fee for 2018/19.</p>	April 2019	Complete
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit, Governance and Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	March 2020	Complete
<p><b>Interim Audit Findings</b></p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	March 2020	Complete
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the July Audit, Governance and Standards Committee.</p>	July 2020	Not yet due
<p><b>Auditors Report</b></p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2020	Not yet due
<p><b>Annual Audit Letter</b></p> <p>This letter communicates the key issues arising from our work.</p>	August 2020	Not yet due

# Results of Interim Audit Work

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

	Work performed	Conclusions and recommendations
<b>Internal audit</b>	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.

	Work performed	Conclusions and recommendations
<b>Journal entry controls</b>	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements. We will perform detailed testing of journals as part of our final audit.
<b>Early substantive testing</b>	<p>During our interim audit visit we performed early substantive testing in the following areas:</p> <ul style="list-style-type: none"> <li>- non-pay expenditure</li> <li>- Payroll</li> <li>- Fees and charges income</li> </ul>	<p>We have undertaken sample testing for each of the areas listed and identified the following issues:</p> <ul style="list-style-type: none"> <li>• Non-pay expenditure: we sample tested the population for the first 9 months of the financial year. We identified issues with 2 of the items which related to 2018/19 but were not included in the prior year accruals. We are currently discussing the reason and potential impact of this with the finance team.</li> <li>• Fees and charges: our sample testing identified that income received on the last weekend of 2018/19 financial year had not been accrued in year and was recognised in 2019/20. This was due to the cut off for income received was applied on the last working day of the financial year. The total impact has been assessed as £120,000.</li> </ul>

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# Sector Update

Councils continue to try 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 sector 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

# Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (ie what stakeholders and society expect from audit compared to what it delivers today).

A full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

- Redefinition of audit and its purpose
  - Creation of a corporate auditing profession, governed by principles
  - Introduction of suspicion into the qualities of auditing
  - Extension of the concept of auditing to areas beyond financial statements
  - Mechanisms to encourage greater engagement of shareholders with audit and auditors
  - Change in language of the opinion given by auditors
  - Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
  - Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
  - Greater clarity around the roles of the audit committee
  - A package of measures around fraud detection and prevention
  - Improved auditor communication and transparency
  - Obligations to acknowledge external signals of concern
  - Extension of audit to new areas including Alternative Performance Measures
  - Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

# MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”



In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, was expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

The terms of reference focus on whether there is an “expectation gap” between the purpose of external audit and what it is currently delivering. It will examine the performance of local authority audit, judged according to the criteria of economy, effectiveness and efficiency.

Other key areas of the review include whether:

- 1) audit recommendations are effective in helping councils to improve financial management
- 2) auditors are using their reporting powers appropriately
- 3) councils are responding to auditors appropriately
- 4) Financial savings from local audit reforms have been realised
- 5) There has been an increase in audit providers
- 6) Auditors are properly responding to questions or objections by local taxpayers
- 7) Council accounts report financial performance in a way that is transparent and open to local press scrutiny

# Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission, We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

.”

# National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

## 163 Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

**Stage 1** involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

**Stage 2** of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

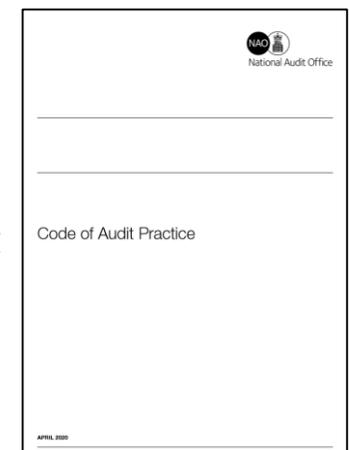
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

[https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code\\_of\\_audit\\_practice\\_2020.pdf](https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf)



# Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit Committee Chairs. Some of the points are relevant to local authorities.

## The reporting environment

The FRC notes that, “In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty.” These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

## Critical judgements and estimates

The FRC wrote “More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions.” Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

## IFRS 16 Leases

The FRC letter also comments on the introduction of IFRS 16. Please refer to pages **XX** for more information on this topic.



## Financial Reporting



### Challenge question:

Will you have the opportunity to review and comment on your authority's statement of accounts before they are published at the end of May?

# Financial Reporting Council – aid to Audit Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee’s evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company’s business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company’s investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor’s competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor’s judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

# Implementation of International Financial Reporting Standard 16 *Leases*

IFRS 16 *Leases*, as interpreted and adapted for the public sector, will be effective from 1 April 2020.

## Background

IFRS 16 *Leases* was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

## Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to *'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'*. This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

## Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

## Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

# Implementation of International Financial Reporting Standard 16 *Leases*

## Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

<https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0>

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/853238/IFRS\\_16\\_Application\\_Guidance\\_December\\_2019.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf)

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners>

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review '*Review of Interim Disclosures in the First Year of Application*', containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

<https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optimised.pdf>.

## Financial Reporting



### Challenge question:

Does your authority have a project plan in place in relation to IFRS 16 *Leases* implementation?

Is your authority's progress against the project plan on track?

# What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal “Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it’s critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future.”

Paul goes on to write “Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government’s austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

- 1) The creation of a new arm’s length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and
- 2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it’s clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

<https://www.themj.co.uk/What-is-the-future-for-audit/214769>

# Grant Thornton's Sustainable Growth Index Report

Grant Thornton has launched the Sustainable Growth Index (formerly the Vibrant Economy Index) – now in its third year. The Sustainable Growth Index seeks to define and measure the components that create successful places. Our aim in establishing the Index was to create a tool to help frame future discussions between all interested parties, stimulate action and drive change locally. We have undergone a process of updating the data for English Local Authorities on our online, interactive tool, and have produced an updated report on what the data means. All information is available on our online hub, where you can read the new report and our regional analyses.

The Sustainable Growth Index provides an independent, data-led scorecard for each local area that provides:

- businesses with a framework to understand their local economy and the issues that will affect investment decisions both within the business and externally, a tool to support their work with local enterprise partnerships, as well as help inform their strategic purpose and CSR plans in light of their impact on the local social and economic environment
- policy-makers and place-shapers with an overview of the strengths, opportunities and challenges of individual places as well as the dynamic between different areas
- Citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

The Index shows the 'tip of the iceberg' of data sets and analysis our public services advisory team can provide our private sector clients who are considering future locations in the UK, or wanting to understand the external drivers behind why some locations perform better than others.

Our study looks at over 50 indicators to evaluate all the facets of a place and where they excel or need to improve.

Our index is divided into six baskets. These are:

- 1 Prosperity
- 2 Dynamism and opportunity
- 3 Inclusion and equality
- 4 Health, wellbeing and happiness
- 5 Resilience and sustainability
- 6 Community trust and belonging

This year's index confirms that cities have a consistent imbalance between high scores related to prosperity, dynamism and opportunity, and low scores for health, wellbeing, happiness inclusion and equality. Disparity between the richest and poorest in these areas represents a considerable challenge for those places.

Inclusion and equality remains a challenge for both highly urban and highly rural places and coastal areas, particularly along the east coast from the North East to Essex and Kent, face the most significant challenges in relation to these measures and generally rank below average.

Creating sustainable growth matters and to achieve this national policy makers and local authorities need to do seven things:

- 1 Ensure that decisions are made on the basis of robust local evidence.
- 2 Focus on the transformational trends as well as the local enablers
- 3 Align investment decisions to support the creation of sustainable growth
- 4 Align new funding to support the creation of sustainable growth
- 5 Provide space for innovation and new approaches
- 6 Focus on place over organisation
- 7 Take a longer-term view

The online report is available here:

<https://www.grantthornton.co.uk/en/insights/sustainable-growth-index-how-does-your-place-score/>



# Institute for Fiscal Studies – English local government funding: trends and challenges in 2019 and beyond

The Institute for Fiscal Studies (IFS) has found “The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB).”

The IFS goes on to report “Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?”

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils’ revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils’ funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14, and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services.”

The IFS reports a number of key facts and figures, including

- 1) Cuts to funding from central government have led to a 17% fall in councils’ spending on local public services since 2009–10 – equal to 23% or nearly £300 per person.
- 2) Local government has become increasingly reliant on local taxes for revenues.
- 3) Councils’ spending is increasingly focused on social care services – now 57% of all service budgets.

The IFS report is available on their website below:

<https://www.ifs.org.uk/publications/14563>



# CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented " the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability.



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index/>

## Financial Resilience

### Challenge question:

Has your Authority used the CIPFA index and fed back the key messages?



## AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

**16 March 2020**

### 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. A small underspend is projected for the current financial year (2019/20) and a balanced budget has now been set for the forthcoming financial year. However, in the absence of information from the government about future funding arrangements for local government there continues to be uncertainty over the medium term.

Although the Council has no direct responsibility for public health or health care, there is a potential financial impact of the COVID-19 virus which has been recognised in the budget risk register.

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

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

#### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	16 March 2020

# Budget Strategy – Risk Assessment Update

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

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

	the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	
<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

## **2. INTRODUCTION AND BACKGROUND**

2.1 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.

### **Delivering the revenue budget**

2.2 The immediate risks to delivering the revenue budget include:

- failure to contain expenditure within agreed budgets
- failure to deliver planned savings
- shortfall in fees and charges against budgeted income
- failure of commercial initiatives (eg property investment, income generating activities in parks)
- costs of litigation exceed budgeted provision.

Notwithstanding the above risks, for the current financial year 2019/20, projections indicate that there will be a small underspend against the budget.

- 2.3 The Council agreed a balanced budget for the financial year 2020/21 at its meeting on 26 February 2020. Given the Council's track record of delivering against budget, this provides a reasonable level of assurance about the position for the coming year.
- 2.4 The government has provided no detailed information at authority level about funding for 2021/22 and subsequent years. Although Maidstone Borough Council is now largely dependent on locally generated resources, the amount of business rates that we are allowed to retain at a local level is a key variable in budget setting, and will depend on the overall post-2021/22 funding regime. There is also a risk that negative Revenue Support Grant, which was due to be levied on the Council in 2019/20 before political pressure forced it to be withdrawn, may be resurrected, even if in another guise. The position for 2021/22 onwards therefore remains very unclear.

### **Delivering the capital budget**

- 2.5 The capital programme plays a vital part in delivering the Council's corporate objectives and helps to secure revenue income generation. The Council has borrowed to fund the capital programme, for the first time, this year. The availability of funding is therefore important.
- 2.6 The main source of funding for local authorities has been the Public Works Loan Board. However, in October 2019, the PWLB's rates were increased for all loans, such that the 50 year maturity rate went up from 1.8% to 2.8%. As a result, very few local authorities have borrowed from the PWLB since then.
- 2.7 Whilst other sources of funding than the PWLB remain available, HM Treasury's readiness effectively to cease funding local authority capital expenditure may indicate a lack of support for local authority investment which would put at risk our capital programme.

### **External factors**

- 2.8 The adverse financial consequences from a disorderly Brexit have formerly been highlighted as a 'red' risk. Whilst the UK has now left the EU, future trading arrangements with the EU are still to be agreed and there remains a risk of disruption if this has not happened by the government's deadline of 31 December 2020. This therefore remains as a moderate risk in the budget risk register.

2.9 The spread of the novel Coronavirus COVID-19 poses a threat at a number of different levels. As this report is concerned specifically with budget risks, the issue here is about the impact on Maidstone Borough Council's finances. As a district council, we are not directly responsible for public health or providing health care in individual cases. There may nevertheless be indirect effects for the Council, such as the following:

- disruption to service delivery owing to staff absence (it has been estimated that up to 20% of the population could be affected)
- reduction in fees and charges income arising from lower levels of economic activity
- effect of a broad reduction in economic growth on public finances.

In recognition of this, a new budget risk 'Financial impact from spread of COVID-19 virus' has been added to the budget risk register. The impact is assessed as moderate, in the context of the Council's overall financial position, and the likelihood as possible. This assessment is provisional and will need to be reviewed as events unfold.

2.10 No other changes are proposed to the budget risk register.

2.11 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.

2.12 Members are invited to consider further risks or to propose varying the impact or likelihood of any risks.

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### **3. AVAILABLE OPTIONS**

3.1 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.

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

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

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

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## **5. RISK**

- 5.1 Risk is addressed throughout this report so no further commentary is required here.
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## **6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 6.1 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 has just been completed for the 2020/21 budget and the results will be reported to Service Committees as part of the budget setting process.
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## **7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 7.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.
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## **8. REPORT APPENDICES**

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

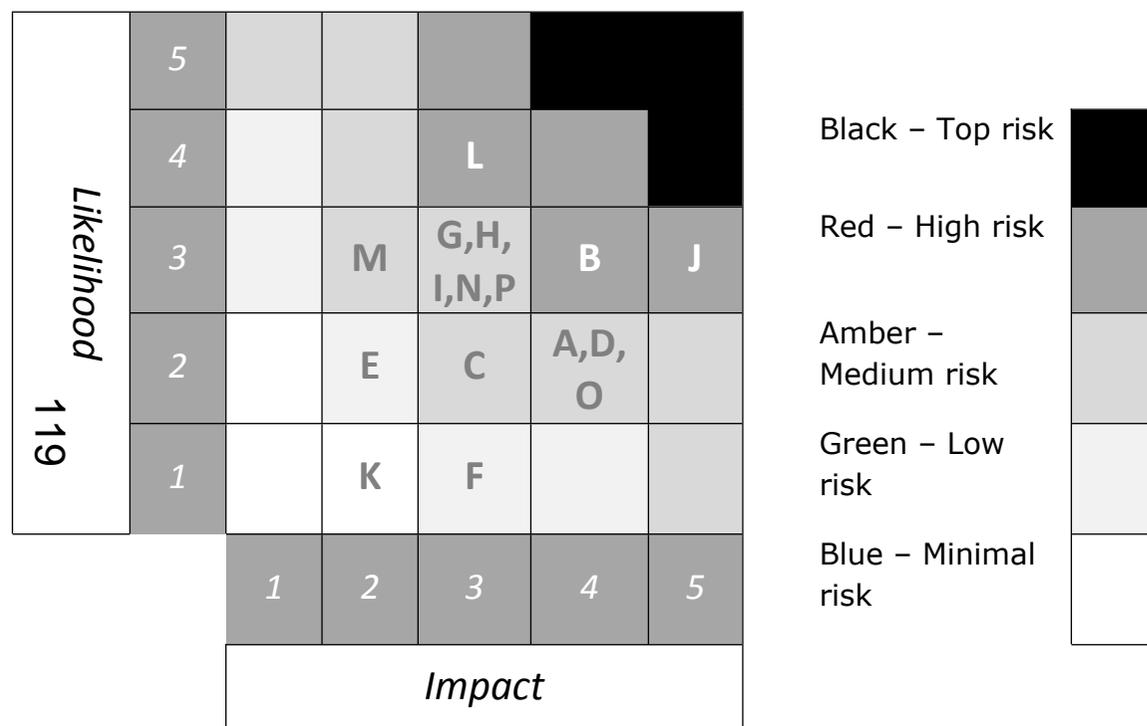
- Appendix A: Budget Strategy Risks
- 

## **9. BACKGROUND PAPERS**

None.

## Budget Strategy Risks

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



<b>A. Failure to contain expenditure within agreed budgets</b>	<b>I. Constraints on council tax increases</b>
<b>B. Fees and Charges fail to deliver sufficient income</b>	<b>J. Capital programme cannot be funded</b>
<b>C. Commercialisation fails to deliver additional income</b>	<b>K. Increased complexity of government regulation</b>
<b>D. Planned savings are not delivered</b>	<b>L. Collection targets for Council Tax and Business Rates missed</b>
<b>E. Shared services fail to meet budget</b>	<b>M. Business Rates pool fails to generate sufficient growth</b>
<b>F. Council holds insufficient balances</b>	<b>N. Adverse financial consequences from a disorderly Brexit</b>
<b>G. Inflation rate predictions in MTFS are inaccurate</b>	<b>O. Litigation costs exceed budgeted provisions</b>
<b>H. Adverse impact from changes in local government funding</b>	<b>P. Financial impact from spread of COVID-19 virus</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
J. Capital programme cannot be funded	1	500	1,500	1,000	50	500
B. Fees and Charges fail to deliver sufficient income	2	200	600	400	50	200
L. Collection targets for Council Tax and Business Rates missed	3	100	300	200	75	150
H. Adverse impact from changes in local government funding	4=	100	500	300	50	150
N. Adverse financial consequences from a disorderly Brexit	4=	100	500	300	50	150
<del>NP</del> P. Financial impact from spread of COVID-19 virus	4=	100	500	300	50	150
D. Planned savings are not delivered	7	250	750	500	25	125
A. Failure to contain expenditure within agreed budgets	8=	200	600	400	25	100
G. Inflation rate predictions in MTFS are inaccurate	8=	100	300	200	50	100
I. Constraints on council tax increases	8=	100	300	200	50	100
O. Litigation costs exceed budgeted provisions	11	100	500	300	25	75
C. Commercialisation fails to deliver additional income	12	100	300	200	25	50
M. Business Rates pool fails to generate sufficient growth	13	50	100	75	50	38
E. Shared services fail to meet budget	14	50	150	100	25	25
F. Council holds insufficient balances	15	100	300	200	5	10
K. Increased complexity of government regulation	16	50	150	100	5	5

## Budget Strategy Risk Register

The following risk register sets out the key risks to the budget strategy. The register sets out the consequences of each risk and the existing controls in place.

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
A 121	<p><b>Failure to contain expenditure within agreed budgets</b></p> <p>The Council overspends overall against its agreed budget for the year</p>	<p>Failure to meet the budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.</p>	<ul style="list-style-type: none"> <li>- Embedded and well established budget setting process</li> <li>- Medium Term Financial Strategy</li> <li>- Balanced budget agreed by Council for 2020/21.</li> <li>- Strong controls over expenditure and established process for recovering from overspends</li> </ul>	4	2	8
B	<p><b>Fees &amp; Charges fail to deliver sufficient income</b></p> <p>Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.</p>	<p>The total value of all Council income from fees and charges is 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
C	<p><b>Commercialisation fails to deliver additional income</b></p> <p>The commercialisation strategy, which is now centred on housing and regeneration, does 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>	<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
		Income generation from commercial activities supports the revenue budget and is required in 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.			
D	<p><b>Planned savings are not delivered</b></p> <p>Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget</p>	<p>The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation.</p> <p>Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<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	2	8
E	<p><b>Shared Services</b></p> <p>Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.</p>	<p>Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<p>The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.</p>	2	2	4
F	<p><b>Insufficient Balances</b></p> <p>Minimum balance is insufficient to cover unexpected events</p> <p>OR</p> <p>Minimum balances exceed the real need and resources are held without identified purpose with low investment returns</p>	<p>Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves.</p> <p>The Council would not gain best value from its resources as Investment returns are low in the current market.</p>	<p>- The Council has set a lower limit below which General Fund balances cannot fall of £2 million.</p> <p>- At the beginning of the 2019/20 financial year usable reserves stood at £15.1 million.</p>	3	1	3

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
123 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 2021/22 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.</p>	<p>- The Medium Term Financial Strategy to 2024/25 includes an adverse scenario which allows for a significant impact on the Council's resources,</p> <p>- The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.</p>	3	3	9
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 the referendum limit.</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 2020/21 incorporates a Council Tax increase of 2%.</p> <p>- Budget planning is based around the assumption of ongoing 2% increases in subsequent years.</p>	3	3	9
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>	5	3	15

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>- Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria.</p> <p>- Local authorities continue to be able to access borrowing at relatively low cost through the Public Works Loan Board but there is a risk that this may be subject to restrictions in future.</p>			
K 124	<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 amount to around £60 million in 2020/21 and Council Tax due amounts to around £110 million.</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</b></p>	<p>Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.</p>	<p>- The pool is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of the pool across Kent as a</p>	2	3	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	Changes to rateable value (RV) or instability of business rates growth within the pool may not generate projected levels of income		<p>whole is projected to be around £10m in 2020/21.</p> <p>- 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.</p>			
N	<b>Adverse financial consequences from a disorderly Brexit.</b> There remains a risk that the UK could leave the EU without a trade agreement in December 2020.	<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>	3	3	9
125 O	<b>Litigation costs exceed budgeted provisions.</b> The Council is often engaged in litigation and generally the costs of any award against the Council and associated costs of legal advice can be met from within budgets. However, it is prudent to acknowledge the risk that provisions may not in fact be sufficient to cover all likely costs.	Costs in excess of budget would require a drawing on reserves and the identification of savings in subsequent years in order to replenish the level of reserves.	<ul style="list-style-type: none"> <li>- Corporate Leadership Team is updated regularly on outstanding legal cases.</li> <li>- Appropriate professional advice is taken at all times.</li> </ul>	4	2	8
P	<b>Financial impact from spread of COVID-19</b> The spread of the virus is likely to have an impact on MBC as a district council in terms of disruption to service delivery owing to staff absence, reduction in fees and charges income arising from lower levels of economic activity and the effect of a broad reduction in economic growth on public finances.	In the short term the Council would need to draw on reserves to cover the financial costs, but in the longer term savings would be required to replenish reserves.	<ul style="list-style-type: none"> <li>- Senior officer group mobilised to address short term impacts</li> <li>- Mitigations to be developed over longer term</li> </ul>	3	3	9

# 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