

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 15 March 2021

Time: 6.30 p.m.

Venue: Remote Meeting - The public proceedings of the meeting will be broadcast live and recorded for playback on the Maidstone Borough Council website

Membership:

Councillors Adkinson (Vice-Chairman), Brindle, Coulling (Parish Representative), Cox, Cuming, Daley, Fissenden, Harvey (Chairman), 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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2. Notification of Substitute Members	
3. Urgent Items	
4. Notification of Visiting Members	
5. Disclosures by Members and Officers	
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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 5 March 2021

Continued Over/:



Alison Broom, Chief Executive

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INFORMATION FOR THE PUBLIC

In order to ask a question at this remote meeting, please call **01622 602899** or email committee@maidstone.gov.uk by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Thursday 11 March 2021). You will need to provide the full text in writing.

If your question is accepted, you will be provided with instructions as to how you can access the meeting.

In order to make a statement in relation to an item on the agenda, please call **01622 602899** or email committee@maidstone.gov.uk by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Thursday 11 March 2021). You will need to tell us which agenda item you wish to comment on.

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MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE REMOTE MEETING HELD ON 18 JANUARY 2021

Present: Councillor Harvey (Chairman) and Councillors Adkinson, Coulling (Parish Representative), Cox, Cuming, Daley, Fissenden, Garten, Perry, Round and Titchener (Parish Representative)

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

152. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Brindle.

153. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Garten was substituting for Councillor Brindle.

154. URGENT ITEMS

The Chairman said that she had agreed to take the update report of the Director of Finance and Business Improvement relating to an unavoidable breach of the current counterparty limits as an urgent item as the situation arose after the agenda for the meeting was published, it was relevant to the Committee's discussions regarding the Treasury Management Strategy at agenda item 14 and to keep Members informed.

155. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

156. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

157. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

158. EXEMPT ITEMS

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

159. MINUTES OF THE MEETING HELD ON 16 NOVEMBER 2020

RESOLVED: That the Minutes of the meeting held on 16 November 2020 be approved as a correct record and signed.

Councillor Daley joined the meeting during consideration of the Minutes of the meeting held on 16 November 2020 (6.37 p.m.). Councillor Daley said that he had no disclosures of interest or lobbying.

160. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

161. QUESTIONS FROM MEMBERS TO THE CHAIRMAN

There were no questions from Members to the Chairman.

162. COMMITTEE WORK PROGRAMME

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

In response to a question, the Head of Audit Partnership advised Members that the Internal Audit team was undertaking a routine review of the waste management contract and the findings would be included in the annual report to the Committee in July. If the findings of the review were concerning, then a separate report could be submitted to the Committee.

The Head of Audit Partnership took the opportunity to update Members on the Government's response to the Redmond Review into the effectiveness of the local authority audit regime. It was noted that in terms of the three recommendations that were highlighted as having the most impact:

- The Government had accepted the recommendation that the deadline for publication of audited local authority accounts should be moved back from the end of July to the end of September for at least the next two years.
- The Government was in favour of the recommendation that local authorities should accompany their accounts with a separate statement that aimed to be more transparent and easier to read for members of the public and had indicated that it would work with CIPFA or ask CIPFA to develop a format for the document.
- The Government was not persuaded regarding the recommendation that a separate new overarching regulatory body be established to assign and oversee the quality of audit work and had indicated that it would respond in more detail in the Spring of 2021.

RESOLVED: That the Committee work programme and the update on the Government's response to the Redmond Review into the effectiveness of the local authority audit regime be noted.

163. ANNUAL COMPLAINTS REPORT 2019/20

The Equalities and Corporate Policy Officer introduced this report providing an overview of (a) how the Council had performed in responding to complaints in 2019/20 and (b) the Local Government and Social Care Ombudsman's (LGSCO) Annual Review Letter 2019/20. The Equalities and Corporate Policy Officer advised the Committee that:

- The Council received 720 stage 1 complaints in 2019/20 compared to 568 in 2018/19, an increase of 26.8%. Of the 720 stage 1 complaints received in 2019/20, 110 were escalated to the second stage of the Council's complaints process. This was an escalation rate of 15.3% compared to 19.2% in 2018/19.
- The report also described a new assessment undertaken as part of the Council's complaints process as a means of documenting the enquiries made prior to a complaint being taken forward for a stage 2 investigation in line with the LGSCO guidance. The assessment stage helped to transparently identify whether a stage 2 investigation could add anything of value to the original stage 1 investigation and response and helped prevent complaints being investigated at stage 2 that could not provide any further remedy or outcome. The process also encouraged positive engagement with the complainant and better managed expectations in terms of outcome.
- The LGSCO had reviewed 49 complaints and made decisions on 43 complaints in 2019/20. 7 complaints had been upheld in 2019/20 compared to 3 in 2018/19. All recommendations made by the LGSCO had been complied with by the Council.
- The Council received 47 written compliments during 2019/20.
- The Policy and Information team would be reviewing some areas to impact positively on performance. Areas of focus would include those services with complaints upheld at stage 2 and those with an increased number of complaints referred to the LGSCO.

In response to questions, the Equalities and Corporate Policy Officer advised the Committee that:

- 64% of the complaints investigated by the LGSCO were upheld compared to an average of 45% in similar authorities. The review of performance would look in detail at those complaints and the service areas.
- The Council had a two stage complaints process. The purpose of the assessment referred to in the report was to document and help determine whether a stage 2 investigation could add value to the stage 1 complaint response in terms of outcome for the complainant. The third stage of the complaints process was to contact the LGSCO as set out in the Council's Complaints Policy. This was the recognised standard. The report would be amended in future to avoid ambiguity

about the stages of the complaints process. A copy of the Council's Complaints Policy would be circulated to all Members of the Committee for information.

- This was an annual report and Appendix 1 showing the number of stage 1 complaints by service and the number of those complaints responded to late could be amended in future to show a year-by-year comparison.
- 41% of the stage 1 complaints in 2019/20 related to waste and the situation was being kept under review by the Communities, Housing and Environment Committee through the regular performance monitoring reports. The Policy and Information team was working closely with the Waste Management team to ensure that action being taken to address operational problems is communicated to customers.

During the discussion, it was suggested that clarification was required going forward as to how it was decided whether a customer contact was a complaint or, for example, an enquiry.

RESOLVED: That the Council's performance on complaint management in 2019/20 and the information contained in the Local Government and Social Care Ombudsman's Annual Review Letter 2019/20 be noted.

164. INTERNAL AUDIT INTERIM REPORT 2020/21

The Head of Audit Partnership introduced his report summarising the progress made so far in delivering the revised 2020/21 Internal Audit and Assurance Plan approved by the Committee in September 2020 and providing an update on the approach to completing the Plan culminating in a Head of Audit Opinion in July 2021.

In introducing the report, the Head of Audit Partnership advised the Committee that:

- The Internal Audit team had continued to work with sufficient independence and objectivity and had not been subject to undue pressure from Members or Officers. No instances had been identified where it was considered that management had responded inappropriately to risk. He was satisfied that there were sufficient resources available to deliver the 2020/21 Internal Audit and Assurance Plan and to provide a robust Audit Opinion.
- Reference was made in the Plan to agreed additional resources to provide backfill capacity where members of the Internal Audit team were redeployed to support COVID-19 related service delivery. In this connection, contract auditor support had been procured through a well-established framework arrangement with more than 20 Councils as co-signatories. Some of the audit work would be completed by employees of Mazars, the contract supplier, who, for family reasons, were living overseas during the COVID-19 pandemic. Having discussed the matter with Data Protection Officers within the Partner

Authorities, he was satisfied that there were no increased material data protection risks arising from these arrangements.

- When the Annual Internal Audit Report and Opinion 2019/20 was considered by the Committee in July 2020, the audit review of Members' Allowances had not reached draft report stage. The final report was issued in November 2020. Three errors had been found during the audit. In two of those cases Members had claimed for print cartridges. The rules had been clarified and print cartridges were a reclaimable expense. The third error related to a train journey where the receipt had not been provided or it had been misfiled. However, the Internal Audit team had been able to verify that the journey did take place and that the claim was in line with what the cost of the journey would be. Actions had been agreed with the Democratic Services team, one of which was to remind Members about the process for making claims.
- Progress was being made on the 2020/21 Internal Audit and Assurance Plan with the expectation that all of the projects would be concluded by the end of April 2021. Satisfactory progress was being made on the implementation of agreed actions from previous audit projects.
- The report also included details of the professional qualifications gained by members of the Internal Audit Team.

On behalf of the Committee, the Chairman congratulated Jen Warrillow, Maidstone's Audit Manager, on her success at the final stage of the Chartered Internal Auditor qualification.

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

- If it became necessary to use overseas contractors again, a brief written explanation would be provided in reports to the Committee.
- The outcome of the review of the assurance rating structure would be reported to the Committee as part of the 2021/22 Internal Audit and Assurance Plan in the Spring of 2021.
- In terms of high priority actions carried forward past their deadline, progress was being made, but the Internal Audit team was not able to sign them off yet. If the actions were being ignored or falling seriously behind schedule, there would be an accompanying narrative. However, that was not the situation at present.

Members thanked the Internal Audit team for their work in difficult circumstances.

RESOLVED:

1. That the progress so far on completing the 2020/21 Internal Audit and Assurance Plan be noted.
2. That the Head of Audit Partnership's view that he currently holds sufficient resources to complete the Plan and that he will inform the Chairman of the Committee promptly should that situation change be noted.

165. TREASURY MANAGEMENT, INVESTMENT AND CAPITAL STRATEGIES 2021/22

The Finance Manager presented his report setting out the draft Treasury Management, Investment and Capital Strategies for 2021/22. The Finance Manager explained that:

- The focus next year was on running cash balances down to the point at which further borrowing was required. Currently, the Council had short-term borrowing of £9m with other local authorities to fund its Capital Programme. The Council would be looking for a mix of short and long-term borrowing going forward due to interest rates being low and to spread the risk of refinancing debt.
- The investment balance as at 31 December 2020 was £24.19m.
- The Council had made third party loans to Kent Savers and the Cobtree Manor Estate Charity. A loan might also be offered to Maidstone Property Holdings Limited in relation to the refurbishment of rental properties.

The Finance Manager then drew the Committee's attention to the urgent update which had been circulated earlier that day relating to the Treasury Management counterparty limits. It was noted that:

- As part of the report increases were proposed to some of the counterparty limits within the current Treasury Management Strategy. The rationale behind this was that over the past financial year the Council's cash balances had, at certain intervals, been significantly higher than anticipated prior to the onset of the COVID-19 pandemic and associated Government interventions. The key reasons for this were the up-front payments received for Section 31 grants (to compensate for reductions in Business Rates income payable by ratepayers) and COVID-19 Business Grants which, although only held by the Council for a short time before being paid out to businesses, were significant in terms of value.
- If agreed by the Audit, Governance and Standards Committee and the Council on 24 February, the increased limits would come into effect from 1 April 2021.

- In advance of the proposed increases in counterparty limits, the Council had unavoidably breached some of the limits within the existing Strategy. The breach had arisen from receipt at short notice of the latest tranche of COVID-19 Business Grants funding (£12.4m was received from the Government on Friday 15 January). This would shortly be paid over to businesses, but in the meantime the surplus cash had been allocated to counterparties in accordance with the limits proposed within the new Strategy, and with reference to existing principles on managing credit and counterparty risk. All investments were held with highly rated institutions and money market funds, with most of the cash being held in instant access accounts.
- It was anticipated that cash balances would reduce after payments relating to COVID-19 Business Grants, Housing Benefit and the Kent Business Rates Pool left the Council's bank account on Monday 18 and Tuesday 19 January. Balances held with the counterparties would return to within the current limits on Tuesday 19 January, other than one which was subject to 35 days' notice.
- There was a possibility that limits might be breached again between 15 and 22 February following receipt of Housing Benefit subsidy and further Section 31 grant payments.

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

- As to whether the breach of the counterparty limits was unavoidable, the grant received was a significant amount. The funding would be paid over to businesses shortly, so it would not have made sense to use it to pay other suppliers in advance. However, the funds had to be held securely until the time they were due for payment. As other local authorities would have received similar allocations, the scope for short term lending to other Councils was extremely limited. Alternative options were to either retain the cash in the Council's current account with Lloyds or to allocate it to lower rated counterparties. These options were rejected to avoid the over concentration of risk in one area or compromising on the security of the Council's cash deposits. There had been a breach of the counterparty limits, but with a very low risk.
- Increased counterparty limits were proposed in the Treasury Management Strategy for 2021/22 in anticipation of this type of situation arising in the future.
- Link Asset Services had been appointed as the Council's Treasury Adviser and provided valuable professional advice on treasury management issues and a useful sounding board.
- It was made clear in the papers that the information set out in Appendix 5.3 to the Treasury Management Strategy (Economic

Background) was a report provided by the Council's Treasury Advisers as at 1 December 2020.

- Reference was made in the Investment Strategy to the Council lending money to its employees. These loans would be for a specific purpose such as the purchase of a car if one were needed by the employee to carry out their job.
- The Five-Year Capital Programme 2021/22 – 2025/26, included within the Capital Strategy would be checked and any rounding errors corrected.

RESOLVED:

1. That the Treasury Management Strategy for 2021/22, attached as Appendix A to the report of the Finance Manager, be agreed and recommended to Council for adoption together with the increased counterparty limits, subject to any amendments arising from consideration of the Capital Programme by the Policy and Resources Committee at its meeting on 20 January 2021.
2. That the Investment Strategy for 2021/22, attached as Appendix B to the report, be agreed and recommended to Council for adoption.
3. That the Capital Strategy for 2021/22, attached as Appendix C to the report, be agreed and recommended to Council for adoption.
4. That the situation regarding the unavoidable breach of existing counterparty limits, as set out in the urgent update, be noted.

166. EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER

Ms Tina James of Grant Thornton, the External Auditor, presented the Annual Audit Letter summarising the main findings from the work undertaken by the External Auditor for the year ending 31 March 2020 and an updated version of the Audit Findings Report detailing the External Auditor's key findings and conclusions in relation to the 2019/20 audit.

Ms James explained that the audit work was completed and an unqualified audit opinion was issued by the deadline of 30 November. In terms of the Audit Findings Report, additional detail in relation to the valuation of the Pension Fund net liability had been included in response to questions asked at the last meeting.

In response to questions,

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

- It was the role of the External Auditors to look at the actuary's report, not to comment on the investment and monitoring strategy of the Pension Fund. This was a matter for the Kent Superannuation Fund

Committee. There was a district representative on the Kent Superannuation Fund Committee who was supposed to look after the Council's interests, it was not within the remit of this Committee. However, it was right that Members should have some understanding of the actuary's report and the time to look at that was when consideration was given to the Council's annual accounts which included the results of the Pension Fund and the actuary's report in one document.

Ms James explained that:

- The proposed increase in the fee for the 2019/20 external audit reflected the additional time it takes to conduct an audit remotely during the COVID-19 pandemic. It was not specific to Maidstone and remained subject to further discussion and the agreement of Public Sector Audit Appointments Limited. Future fees would be discussed with management and the Committee as part of the planning for the 2020/2021 audit.
- A typographical error in the External Auditor's Audit Findings Report identified in the discussion would be corrected.
- The External Auditor would follow up on prior year recommendations (for example in relation to the collection of related party transaction returns from Members) as part of the reporting for next year.

During the discussion, Members recognised the significant risks associated with the valuation of the Pension Fund net liability but acknowledged that this was a very specialist area with internal controls in place.

RESOLVED:

1. That the External Auditor's Annual Audit Letter for the year ended 31 March 2020, attached as Appendix 1 to the report of the Head of Finance, be noted.
2. That the updated Audit Findings Report from the External Auditor, attached as Appendix 2 to the report of the Head of Finance, be noted.

Note: During the discussion, Councillor Daley said that as a Member of the Kent Superannuation Fund Committee, he was aware of its investment strategy and auditing arrangements.

167. EXTERNAL AUDIT - PROGRESS REPORT AND SECTOR UPDATE

Ms Tina James of Grant Thornton, the External Auditor, presented the progress report of the External Auditor which included a summary of emerging national issues and developments of relevance to the local government sector. It was noted that:

- Work on the certification of the Housing Benefit Subsidy claim was continuing and a report would be submitted to the next meeting of the Committee.
- Work had not started yet on the 2020/21 audit, but the External Auditor would be in contact with the Finance team very soon regarding the Audit Plan.
- The sector update included details of changes to the Code of Audit Practice for 2020/21, the most significant of which related to the way in which the value for money work was reported. There had also been some revisions to accounting standards which meant that the External Auditor would be doing additional work in relation to accounting estimates.

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

168. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

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

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

- The impact of COVID-19 would be long-lasting, and the initial projections indicated that, under a neutral scenario, the Council would face a £3m budget gap in 2021/22. This budget gap had now reduced due to the Government announcing more support for local authorities in the Chancellor's Spending Review and in the provisional Local Government Finance Settlement for 2021/22. There was still a substantial budget gap next year and reports would be submitted to Service Committees this month outlining how it was proposed to address that.
- The Chancellor's Spending Review signalled a willingness to support local authority capital investment, particularly for housing and regeneration, by reducing the cost of borrowing from the Public Works Loan Board by 1%. This had reduced the risk of the Council not being able to fund its Capital Programme.
- In terms of external factors, the resurgence of the COVID-19 pandemic had a direct impact on the budget through additional direct costs, loss of Council Tax and Business Rates income, and loss of income from parking and commercial activities. The risk of adverse financial consequences from a disorderly Brexit had been substantially mitigated through the negotiation of a trade deal with the EU, but there remained risks associated with traffic disruption and the longer-term economic impact.

- The Budget Risk register had been amended to reflect the changes in the risks associated with the funding of the Capital Programme and a disorderly Brexit.

During the discussion, it was suggested that the risks around (a) Brexit (particularly from 1 July 2021 when full import customs clearance formalities would apply) and (b) inflation rate predictions and the implications for the funding of the Capital Programme should be kept under review.

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

169. DURATION OF MEETING

6.30 p.m. to 8.20 p.m.

Agenda Item 11

Audit, Governance & Standards 15 March 2021 Committee

Complaints Received Under the Members' Code of Conduct

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Patricia Narebor – Head of Legal Partnership and Monitoring Officer
Lead Officer and Report Author	Gary Rowland – Senior Lawyer, Corporate Governance
Classification	Public
Wards affected	All

Executive Summary

The report provides an update to the Committee on complaints under the Members' Code of Conduct previously reported as under consideration and received in the period 1 September 2020 to 1 March 2021.

This report makes the following recommendations to this Committee:

1. That the contents of the report be noted.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	15 March 2021

Complaints Received Under the Members' Code of Conduct

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	High standards of conduct are essential amongst Members in delivering the Council's priorities. The Code of Conduct complaints procedure supports this.	Senior Lawyer - Corporate Governance
Cross Cutting Objectives	No impact.	Senior Lawyer - Corporate Governance
Risk Management	The report is presented for information only and has no risk management implications. An effective and robust Code of Conduct complaints procedure minimises the risk of Member misconduct and is part of an effective system of governance..	Senior Lawyer - Corporate Governance
Financial	There are no direct financial implications; however, should it be necessary to appoint external Independent Investigators, the cost of this will be met by the Borough Council.	Senior Lawyer - Corporate Governance
Staffing	The complaints procedure is dealt within the remit of the Monitoring Officer with input from the Legal team as required.	Senior Lawyer - Corporate Governance
Legal	The requirements of the Localism Act 2011 with regards to the Code of Conduct 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.	Senior Lawyer - Corporate Governance
Privacy and Data Protection	No personal information is provided as part of the report.	Senior Lawyer - Corporate Governance
Equalities	Any potential to disadvantage or discrimination against different groups within the community should be overcome within the adopted complaints procedure.	Senior Lawyer - Corporate Governance
Public Health	None identified in the report.	Senior Lawyer - Corporate

		Governance
Crime and Disorder	None identified in the report.	Senior Lawyer - Corporate Governance
Procurement	None identified in the report.	Senior Lawyer - 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 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 & 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 14 September 2020 3 existing Parish Council complaints have been concluded as follows:
- Allegation of bullying, conduct bringing disrepute and preventing access to information.

Concluded informally by offering further training to the Parish Clerk and the Chairman to clarify their respective roles.

The Parish Council was also recommended to review its HR procedures to ensure that members follow the relevant procedure when dealing with staffing matters and appropriate communication channels are followed.

- Allegation of intimidation, compromising integrity, conduct bringing disrepute and preventing access to information.

Concluded informally. The Monitoring Officer recommended that the Parish Council engaged an independent mediator to assist the parties towards a mutual resolution.

- Allegation of breach of confidentiality, improper use of information and conduct bringing disrepute.

The complaint was rejected. Whilst the complaint passed the Legal Jurisdiction Test, it failed the Local Assessment Criteria. Subject Member was advised (by way of comment) to consider a more appropriate use of language during future meetings.

There have been 4 new Parish Council complaints as follows:

- Allegation of conduct bringing Office or Authority into disrepute.

The complaint was rejected. Whilst the complaint passed the Legal Jurisdiction Test, it failed the Local Assessment Criteria.

- Allegation of seeking to confer an advantage or disadvantage on any person and misuse of Council's resources.

The complaint was rejected. Whilst the complaint passed the Legal Jurisdiction Test, it failed the Local Assessment Criteria.

- General allegations were made. The complainant was asked to specify which of the general obligations they alleged to have been breached.

No response was received, and the complaint was not taken further.

- Allegation of deliberately quoting false information in a DPI form.

The complaint was rejected. Whilst the complaint passed the Legal Jurisdiction Test, it failed the Local Assessment Criteria.

- 2.7 There has been 1 complaint made against a Borough Councillor being an allegation of compromising the impartiality or integrity of those who work for or on behalf of the Authority, bringing Office or Authority into disrepute and attempting to use position as a Councillor improperly to secure an advantage. No breach of the Code was established.

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.

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 important that the Committee continue to oversee the complaints received.

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

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

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

8. REPORT APPENDICES

None.

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

15 March 2021

Housing Benefit Subsidy Claim 2019-20

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service	Stephen McGinnes, Director Mid Kent Services
Lead Officer and Report Author	Sheila Coburn, Head of Revenues and Benefits Shared Service
Classification	Public
Wards affected	All

Executive Summary

Maidstone Borough Council pays Housing Benefit to residents on behalf of the Department of Work & Pensions (DWP).

A claim is submitted to the DWP for the recovery of the Housing Benefit paid to residents. Before the DWP makes any payment, a detailed audit is required to be carried out to ensure the accuracy of the claim.

The Audit was undertaken by Grant Thornton to certify the Housing Benefit Subsidy Claim for 2019-20. Whilst the audit identified 3 errors for which adjustment has been made, the original claim as presented by the Council was held to be 99.99% accurate.

Purpose of Report

Report is for noting only.

This report makes the following recommendations to this Committee:

That the Committee notes the findings of the Housing Benefit Grant Claim Audit undertaken by Grant Thornton.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	15 March 2021

Housing Benefit Subsidy Claim 2019-20

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	In maintaining effective financial controls, the Council is able to confidently progress its priorities	Head of Revenues and Benefits Shared Service
Cross Cutting Objectives	No impact	Head of Revenues and Benefits Shared Service
Risk Management	The work undertaken by Grant Thornton provides external assurance to the Council on the effectiveness of arrangements for the accurate payment and recording of benefit expenditure	Head of Revenues and Benefits Shared Service
Financial	The adjustments outlined have minimal impact on the net value of the Council's claim and the level of error identified does not indicate any significant underlying control weaknesses.	Section 151 Officer & Finance Team
Staffing	No Impact	Head of Revenues and Benefits Shared Service
Legal	<p>The Department for Work and Pensions has developed the Housing Benefit Assurance Procedure (HBAP) that provides a comprehensive guide to providing assurance of Housing Benefit Subsidy claims submitted by Local Authorities including the testing methodology to establish a basis for the assurance and amendment of claims prior to final submission and the provision of the tools with which to conduct the assurance engagement.</p> <p>The Housing Benefit Grant Claim Audit by Grant Thornton was undertaken in accordance with the HBAP procedures.</p>	Head of Revenues and Benefits Shared Service

Privacy and Data Protection	No impact	Head of Revenues and Benefits Shared Service
Equalities	No impact	Head of Revenues and Benefits Shared Service
Public Health	No impact	Head of Revenues and Benefits Shared Service
Crime and Disorder	No impact	Head of Revenues and Benefits Shared Service
Procurement	No impact	Head of Revenues and Benefits Shared Service

2. INTRODUCTION AND BACKGROUND

- 2.1 Each year the Housing Benefit audit process is due to be completed by 30 November, which is a deadline set by the Department of Work and Pensions (DWP).
- 2.2 Due to the COVID pandemic, the DWP recognised there might be operational issues with external audit companies and local authorities meeting this deadline so offered authorities an alternative deadline of 31 January 2021.
- 2.3 Unfortunately, due to staff resource issues at Grant Thornton, the Council had to request the DWP for a further extension to 31 March 2021.
- 2.4 External Audit undertook an initial sample check of 40 Housing Benefit claims across the main areas of expenditure and identified 1 error where other income had been incorrectly applied in a case in receipt of Employment & Support Allowance (ESA).
- 2.5 As a result of the error identified, all claims in receipt of ESA and other income were reviewed and no further errors were found.

- 2.6 External Audit were required to carry out testing on prior year errors for earned income and tested an additional sample of 40 cases.
- 2.7 Two cases resulted in an overpayment of Housing Benefit to a total of £55 due to miscalculating the claimants' earned income.
- 2.8 External Audit carried out further tests on a sample of 40 cases for Working Tax Credit and Child Tax Credit.
- 2.9 One error was identified with a value of £1 due to an incorrect value of Working Tax Credit being applied.
- 2.10 Two cases were identified which had been incorrectly classified in the cells on the return. These amounts of £159 and £260 have been amended on the Subsidy claim form.
- 2.11 The value of errors provided for a total gross adjustment of £168. That error rate suggests the original claim as presented by the Council was 99.99% accurate.
- 2.12 The Revenues and Benefits Service carried out over 50,000 benefit assessments during 2019-20 and whilst that work is undertaken with a high degree of accuracy, supported by robust quality assurance measures, a level of error is unavoidable. It is commonplace for Housing Benefit grant claims to be qualified.
- 2.13 Due to the number and type of errors identified, it is not proposed to have an action plan put in place. Staff will be reminded of the importance to ensure figures are not transposed and calculations are double checked to minimise errors in future.

3. AVAILABLE OPTIONS

- 3.1 Report is provided for information only.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Report is produced for information only.

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 The report is provided for information only with no consultation required.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 Report is provided for information only.

8. REPORT APPENDICES

8.1 Appendix 1: to follow – Grant Thornton Qualification Letter

9. BACKGROUND PAPERS

None

Agenda Item 13

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

15 March 2021

Fraud and Compliance Team Update 2019-20

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

Executive Summary

To update the Committee on work undertaken by the Revenues and Benefits Fraud & Compliance team for the financial year 2019-20.

Purpose of Report

Noting

This report makes the following recommendations to this Committee:

That the contents of the report are noted.

Timetable

Meeting	Date
Audit Governance and Standards Committee	15 March 2021

Fraud & Compliance Team Update 2019-20

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities.	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
Cross Cutting Objectives	None	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
Risk Management	This report is presented for information only and has no risk management implications.	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
Financial	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
Staffing	There are no changes to staffing proposed in this report.	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
Legal	<p>It is a function of the Audit, Governance and Standards Committee to monitor the effectiveness of Council's counter-fraud and corruption Strategy.</p> <p>This report provides an update on the work undertaken by the Revenues and Benefits Fraud & Compliance team.</p> <p>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 functions are exercised having regard to a combination of economy, efficiency and effectiveness. Reports on the Team's performance assist in demonstrating best</p>	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership

	value and compliance with the statutory duty.	
Privacy and Data Protection	Accepting the recommendations will not increase the volume of personal data held by the Council.	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
Public Health	No impact	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
Crime and Disorder	No impact	Sheila Coburn Head of Mid Kent Revenues and Benefits Partnership
Procurement	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 Mid Kent 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 along with Swale and Tunbridge Wells borough councils 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 systems.
- 2.7 With the value of discounts and exemptions estimated in excess of £16 million 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.

2019/20 Outturn

- 2.9 The focus of the 2019-20 financial year was on the new release of National Fraud Initiative data and small business rate relief accounts, whilst a new system was being implemented for the monitoring of single person discounts.
- 2.10 The New Homes Bonus project in October 2019 was a 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 results of the exercise amounting to savings of £205,800.
- 2.11 In 2018-19 penalties were introduced where those residents who do not report changes or who fraudulently make claims for discounts are issued with a penalty of £70. The number of penalties issued increased in 2019-20.
- 2.12 Table 1 shows a summary of savings generated across the 3 authorities by the team for 2019/20.

Table 1

Small Business Rate Relief	£257,954
Single Person Discount	£19,059
New Homes Bonus	£543,200
National Fraud Initiative (Council Tax Reduction and Single Person Discount)	£389,936
Housing Benefit Matching Service (HBMS)	£72,721
Penalties	£3,010
Other	£55,745

Total	£1,341,625
--------------	-------------------

2020-21 (so far)

- 2.13 In conjunction with the Kent Intelligence Network (KIN) software was 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.
- 2.14 We were proposing to use this software in 2020-21 to further increase the savings that can be identified.
- 2.15 However, the amount of work the Fraud & Compliance team has been able to carry out this year has severely been disrupted by the COVID pandemic.
- 2.16 For the first 3 months of the financial year, all members of the Fraud & Compliance team were assisting in other areas of the Council in response to the pandemic.
- 2.17 For the rest of the year the team has been able to carry out limited projects with the annual New Homes Bonus showing favourable results.
- 2.18 Kent county Council has partly funded a debtor tracing tool (Retriever) which is used to trace the whereabouts of Council Taxpayers who have left their properties owing amounts of Council Tax.
- 2.19 This has been successful with over 400 Council Tax debtors being traced so we can contact them at their current address to recovery monies due.
- 2.20 Table 2 shows the progress so far for 2020-21

Table 2

New Homes Bonus	£758,800
Retriever (Council Tax debt brought back into recovery)	£779,656
Penalties	£350
Total	£1,538,806

3. AVAILABLE OPTIONS

- 3.1 Option 1 - The Council could decide not to have a Fraud and Compliance team but this is not recommended given 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.
-

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

None

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

None

8. REPORT APPENDICES

None

9. BACKGROUND PAPERS

None

Agenda Item 14

Audit, Governance & Standards Committee

15th March 2021

Annual Risk Management Report

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Rich Clarke, Head of Audit Partnership
Lead Officer and Report Author	Russell Heppleston, Deputy Head of Audit Partnership
Classification	Public
Wards affected	All

Executive Summary

The Audit, Governance & Standards Committee is required to provide oversight of the Council's risk management arrangements and to seek assurances that the processes are working effectively. This report, which is presented annually, sets out the details of how the risk management processes are working across the Council, including any changes or modifications undertaken since the last report in January 2020.

Purpose of Report

The purpose of this report is to provide assurance to Members on the Council's risk management arrangements. As those charged with governance, the Committee must seek assurance over the effectiveness of the operation of the process as required through its Terms of Reference.

This report makes the following recommendations to this Committee:

1. That the Risk Management Annual Report (appendix 1) is **discussed** and **noted**.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	15 th March 2021

Annual Risk Management Report

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, risk management is a key component in the Council's governance. Good governance underpins everything that the Council does.	Russell Heppleston Deputy Head of Audit Partnership
Cross Cutting Objectives	We do not expect the recommendations will by themselves materially affect achievement of cross cutting objectives. However, risk management is a key component in the Council's governance. Good governance underpins everything that the Council does.	Russell Heppleston Deputy Head of Audit Partnership
Risk Management	Risk management is the focus of this paper.	Russell Heppleston Deputy Head of Audit Partnership
Financial	Risk management support is provided through the Mid Kent Audit partnership within existing budgets. This decision therefore has no direct financial implications. In general, effective risk management contributes towards strong financial governance and controls in the Council.	Section 151 Officer & Finance Team
Staffing	There are no staffing implications to this decision.	Russell Heppleston Deputy Head of Audit Partnership
Legal	The Accounts and Audit Regulations 2015 require the Council to have a sound system of control which includes arrangements for the management of risk. This report is part of those arrangements and is designed to ensure that the appropriate controls are effective.	Jayne Bolas Principal Solicitor Contentious & Corporate Governance.
Privacy and Data	This is a report in the public domain, and there are no associated privacy or data	Russell Heppleston

Protection	protection implications.	Deputy Head of Audit Partnership
Equalities	This report does not describe circumstances which require an Equality Impact Needs Assessment.	Russell Heppleston Deputy Head of Audit Partnership
Public Health	There are no public health implications for this report.	Russell Heppleston Deputy Head of Audit Partnership
Crime and Disorder	There are no crime and disorder implications for this report.	Russell Heppleston Deputy Head of Audit Partnership
Procurement	There are no procurement implications for this report.	Russell Heppleston Deputy Head of Audit Partnership

2. INTRODUCTION AND BACKGROUND

- 2.1 Risk management is the process undertaken to identify, evaluate and manage risks. In early 2016 the Council implemented a risk management framework designed to improve the risk management process. This included reporting and monitoring mechanisms for key risk information to be communicated to Senior Officer and Member level. This framework was reviewed and updated in April 2019 to ensure that it remains fit for purpose and current.
- 2.2 The Audit, Governance & Standards Committee is required to provide oversight of the Council's risk management arrangements and to seek assurances that the processes are working effectively. This report, which is presented annually, sets out the details of how the risk management processes are working across the Council, including any changes or modifications undertaken since the last report in **January 2020**.

3. AVAILABLE OPTIONS

- 3.1 In order for any risk management process to be effective it is vital that risk information is reported, that risks are monitored and that action is taken to manage risks to an acceptable level. Reporting risks to Members is necessary to provide assurance that risks are being managed.
- 3.2 An alternative option would be to not report or monitor risks, but this would counter the effectiveness of the process, and would go against the terms of reference for this Committee.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Effective risk management is a key component of sound governance. This Committee, as those charged with governance, must gain assurance that the Council is operating an effective risk management process, and that risks are being managed.
- 4.2 We therefore propose that the Committee notes the arrangements in place and provides comments on the operation of the risk management process.
-

5. RISK

- 5.1 This report is presented for information only and in itself has no risk management implications. The work that it describes helps to contribute towards effective risk management.
-

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 The risk management framework was designed and updated through consultation with Corporate Leadership Team. All risk owners have been involved in the identification and assessment of the risks on the register.
-

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 Unless requested otherwise, we will continue to report annually on the Council's Risk Management processes.
-

8. REPORT APPENDICES

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

- Appendix 1: MBC Annual Risk Management Report
-

9. BACKGROUND PAPERS

The risk management framework was reported to Policy and Resources Committee in April 2019 and is publicly available on the Council's [website](#).

MID KENT AUDIT

Risk Management Annual Report

**Audit, Governance & Standards
Committee**

March 2021

Introduction

Effective risk management sits at the heart of the Council and is a cornerstone of good governance. The events of the last year have shown how important it is for us to be aware of key risk issues and to have the right mechanisms in place to plan and respond to risks before they materialise. The risk management framework and processes enable us to be aware of risks on the horizon and to understand their severity and likelihood. By understanding our risks, we can better plan and prepare, this in turn, increases our ability to deliver and achieve our ambitions and objectives.

The purpose of this report is to provide assurance to Members of Audit, Governance and Standards, that the Council has effective risk management arrangements in place. Moreover, that risks identified through this process are managed and monitored appropriately. This assurance is vital to enable the Committee to fulfil the responsibilities as set out in the Terms of Reference:

“In conjunction with Policy and Resources Committee to monitor the effective development and operation of risk management and corporate governance in the Council to ensure that strategically the risk management and corporate governance arrangements protect the Council.”

Roles & Responsibilities

We (Mid Kent Audit) are responsible for the risk management processes across the Council. Our role includes regular reporting to Officers and Members, through the Corporate Leadership Team (CLT), Policy & Resources Committee and the Audit, Governance & Standards Committee. We also provide workshops, training, and facilitate the effective management of risks across all levels of the Council.

Having valuable and up to date risk information enables both Executive and oversight functions to happen effectively. The Policy & Resources Committee has overall responsibility for the risks identified through the risk process and will review the substance of individual risks to ensure that issues are appropriately monitored and addressed.

As those charged with governance and oversight the Audit, Governance & Standards Committee are required to seek assurance that the Council is **operating** an effective risk management process.

The Risk Process

Risk management is a continuous process and primarily seeks to identify and understand those things that are uncertain. The **risk management framework** is the guide that sets out how the Council identifies, manages, and monitors uncertainty. This includes a clear risk appetite statement articulating the Council's tolerance to risk. The framework was reviewed, updated and approved by Policy and Resources Committee in April 2019.

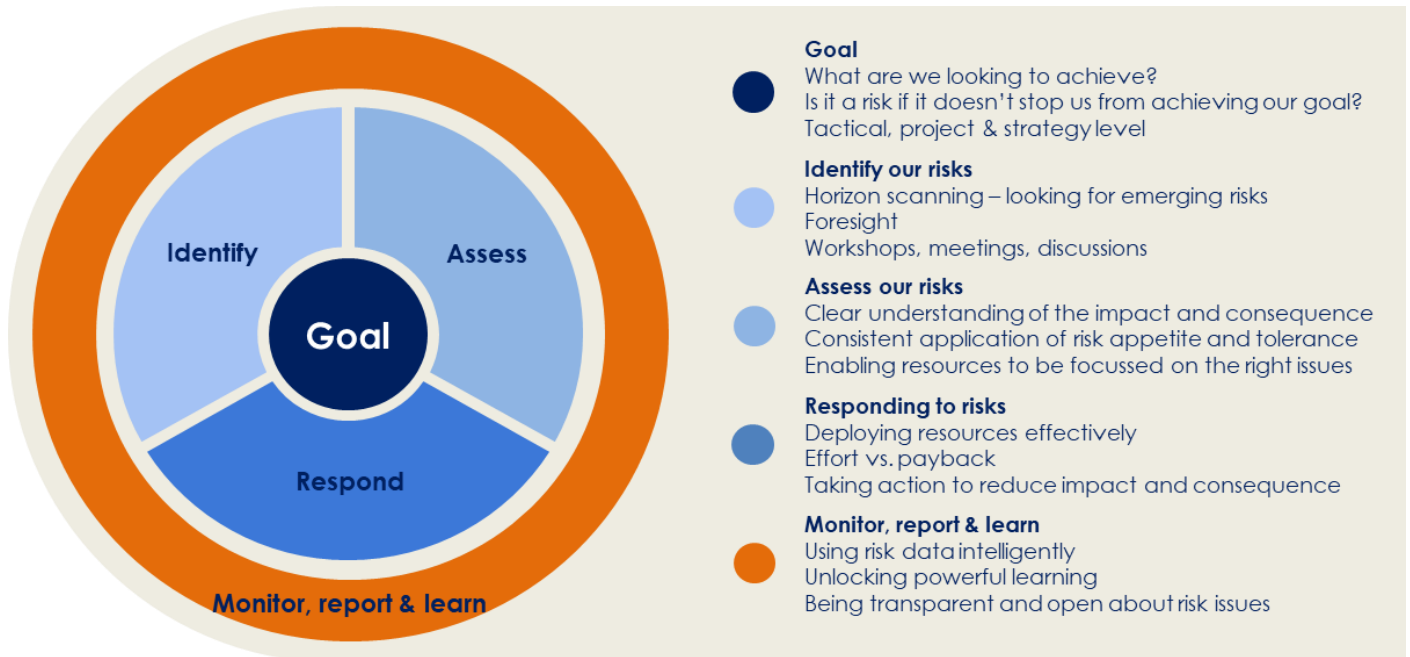
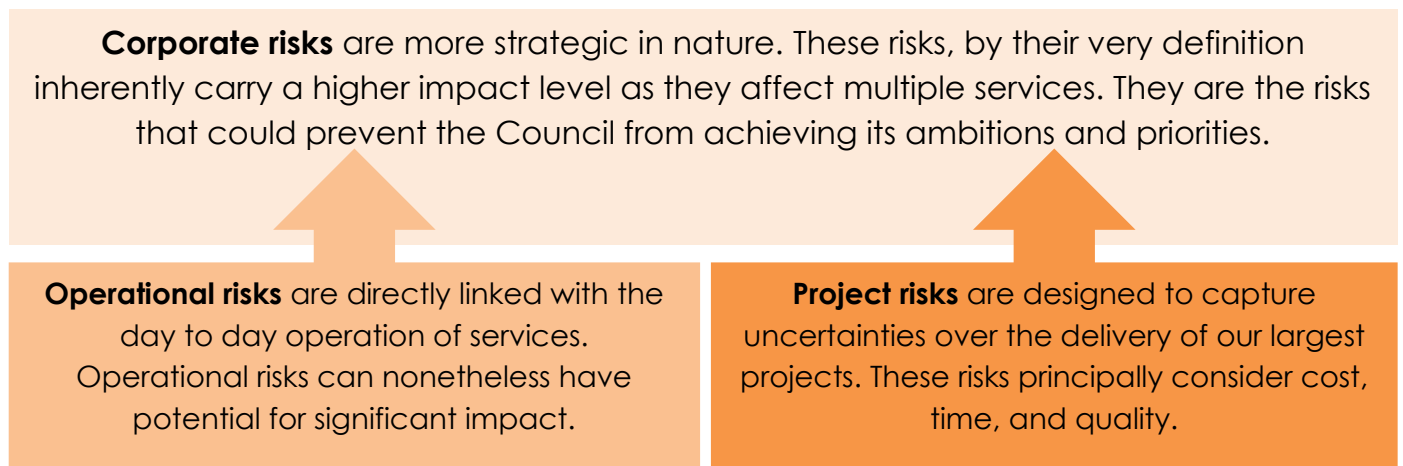


Figure 1: Risk Management Process Summary

The illustration above shows how we move through the risk management process from initial risk identification, evaluation and then to response. The regular and ongoing monitoring of risks becomes vital in ensuring that we are responding the risks in the right way and that our resources are deployed and focussed on the biggest issues.

We identify risks across 3 levels, corporate (strategy), operational and projects. All Council services maintain an operational risk register, including Shared Services and these risks are updated, monitored, and reported through Wider and Corporate Leadership Team.



Risk Appetite

Our **risk appetite** guides how much risk we are willing to seek or accept to achieve our objectives. We recognise effective risk management considers not just threats but also opportunities. So, our approach to risk is to seek the right opportunities and, where possible, minimise threats. To achieve our ambitions, we recognise that taking risks and facing risks will be inevitable. Our risk appetite encourages managed risk taking for minor to moderate level risks but seeks to more closely control those risks that come further up the scale.

Beyond our risk appetite is our **risk tolerance**. This sets the level of risk that is unacceptable, whatever opportunities might follow. In such instances we will aim to reduce the risk to a level that is within our appetite. We illustrate our risk tolerance in the matrix below. As we are currently facing significantly challenging times following the pandemic, our tolerance level is set in the **RED** shaded area and above. Risks in and above this area require direct focus and oversight above that of risks within the **AMBER** line and below.

When evaluating risks, we consider **impact** and **likelihood** (definitions attached in **Appendix a**).

- **Impact:** This is a consideration of how severely the Council would be affected if the risk were to materialise.
- **Likelihood:** This is a consideration of how likely it is that the risk will occur. In other words, the probability that it will materialise.

To understand the scale of risks the following guidance is available to risk owners when evaluating their risks:

Likelihood	5	5	10	15	20	25	20-25	Identify the actions and controls necessary to manage the risk down to an acceptable level. Risks of this level are regularly reported and monitored by Corporate Leadership Team.		
	4	4	8	12	16	20			12-16	Identify controls to treat the risk impact / likelihood and seek to bring the risk down to a more acceptable level. Risk of this level are reported and monitored by Corporate Leadership Team each quarter.
	3	3	6	9	12	15				
	2	2	4	6	8	10			5-10	Keep these risks on the radar and update as and when changes are made, or if controls are implemented. Movement in risks should be monitored, for instance featuring as part of a standing management meeting agenda.
	1	1	2	3	4	5				
		1	2	3	4	5	3-4	Keep these risks on your register and formally review at least once a year to make sure that the impact and likelihood continues to pose a low level.		
		Impact								
							1-2	No actions required but keep the risk on your risk register and review annually as part of the service planning process.		

Corporate Risk Portfolio

The Council's corporate risks are those risks which could impede the achievement of our strategic aims and objectives. As the most significant areas of uncertainty, corporate risks are reported to Corporate Leadership Team on a regular basis to ensure effective oversight and management.

The full corporate risk register is also reported and published to the Policy & Resources Committee quarterly. The most recent update went in [February 2021](#).

The table below summaries the top **11** corporate risks and tracks movement of the risk over the last 18 months:

Risk Title	Score before mitigation			Movement
	Jun 20	Nov 20	Jan 21	
Contraction in retail & leisure sectors	25	25	25	-
Financial restrictions	20	20	20	-
Environmental damage	16	16	16	-
Brexit / EU transition	16	16	16	-
Major unforeseen emergency	15	15	15	-
Covid-19: Restrictions to Council operations	20	12	12	-
Covid-19: Community & business recovery		12	12	-
Housing pressures increasing	12	12	12	-
IT security failure	12	12	12	-
Not fulfilling residential property responsibilities	12	12	12	-
Major contractor failure		12	12	-

This summary illustrates that corporate risks are actively being reported and monitored and that processes are in place to ensure new emerging issues are captured and escalated.

Operational Risks

Operational risk registers are in place for each service and are reviewed and updated routinely depending on severity. Managers and Heads of Service are responsible for managing operational risks. In accordance with the Council's risk tolerance, Wider and Corporate Leadership Teams receive risk updates throughout the year and will monitor and review risks through that process.

We are currently wrapping up work to refresh all of the operational risks across each service, including specific work to identify any risks arising from our new ways of working, working under crisis and resilience risks arising from COVID-19. Outcomes of this work will be reported in the usual way to Management and then on to Policy & Resources Committee.

Next Steps

Risk management is a continuous process, and we will continue to build on and improve the arrangements to further strengthen the risk management arrangements and to develop a positive risk culture across the Council.

We have set out our priorities over the coming year in a risk management plan. The key areas of focus are set out below:

The infographic is a vertical grid of six orange-colored boxes, each representing a key area of focus. Each box contains a numbered icon, a title, a time period, and a description of the actions to be taken.

- 1 Risk Software** (Apr – Jun 2021): Implement specialist risk software to improve the efficiency of the risk process, enable more powerful reporting, monitoring and increasing engagement with risk owners.
- 2 Training & Development** (Jan - Jun 2021): Deliver a series of training briefings to support the rollout of risk software and to refresh knowledge and expertise of risk management and the risk management process. Briefings to be delivered to Officers & Members.
- 3 Operational Risks** (Dec - Jan 2021): Refresh operational risk registers. Workshops will be made available for services and teams to facilitate the process and to ensure that risks are identified and assessed in accordance with the agreed framework and guidance.
- 4 Corporate Risks** (Jan - Feb 2021): Refresh the corporate risk register to reflect the outcomes of revised operational risk work. A workshop will be delivered to align corporate risks to the Council Plan. Risks will be assessed alongside the corporate risk appetite and tolerance levels.
- 5 Risk Actions** (Jun – Sept 2021): Implement mechanisms to ensure that actions are taken to address risks that fall above the risk tolerance level. We will work with risk owners to identify control measures and to assess the reduction on the overall level of risk. Sharing of effective control measures to be incorporated.
- 6 Reporting & Monitoring** (Throughout 2020 / 21): Undertake continuous monitoring of risk information and rethink / redesign risk reporting to ensure that data is valuable and supportive. Report corporate risk issues to Policy & Resources and Audit, Governance & Standards Committee.

Risk management is only as effective as the risks that are identified, and the action taken to address those risks. We continue to receive a positive level of engagement and support from Senior Officers and Managers across the Council which has enabled the risk management process to develop and embed.

We would like to take this opportunity to thank officers and Members for their continued work and support.

Impact & Likelihood Scales

Risk Impact

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

Risk Likelihood

Level	Probability	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 no 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

Audit, Governance & Standards Committee

15 March 2021

Internal Audit & Assurance Report 2021/22

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Rich Clarke, Head of Audit Partnership
Lead Officer and Report Author	Rich Clarke, Head of Audit Partnership
Classification	Public
Wards affected	<i>All</i>

Executive Summary

The report summarises the risk assessment and consultation process undertaken by Internal Audit to compile the programme of work that will lead up to the 2021/22 Head of Internal Audit Opinion. The plan also sets out Internal Audit's wider work and includes as an appendix the *Quality and Assurance Programme* that sets out how internal audit will maintain quality while completing the plan.

Purpose of Report

Decision

This report makes the following recommendations to this Committee:

1. **Approve** the Internal Audit & Assurance Plan for 2021/22. This includes delegating to the Head of Audit Partnership to keep the plan current as set out in the appendix.
2. **Note** the Head of Audit Partnership's view that internal audit currently has sufficient resources to deliver the plan and a robust Head of Audit Opinion.
3. **Note** the Head of Audit Partnership's assurance that the plan is compiled independently and without inappropriate influence from management.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	15 March 2021

Internal Audit & Assurance Plan 2021/22

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off	
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities or cross cutting objectives. However, they will support the Council's overall achievement of its aims by contributing to effect corporate governance.	Rich Clarke, Head of Audit Partnership. 1 March 2021	
Cross Cutting Objectives			
Risk Management			The audit plan draws on the Council's risk management in considering the areas for audit examination. In turn, audit findings will provide feedback on the identification, management and controls operating within risk management.
Financial			The work programme set out in the plan is produced to be fulfilled within agreed resources for 2021/22.
Staffing			We will deliver the recommendations with our current staffing establishment.
Legal	The Accounts and Audit Regulations 2015 contain provisions on internal audit. The Regulations require that the Council undertakes an effective internal audit taking into account public sector internal auditing standards. The Standards require that the Head of Audit Partnership provides an annual opinion based on objective assessment of the framework of governance, risk management and control. Therefore, the Council is required consider and approve the Internal Audit & Assurance Plan for 2021/22 appended to this report to maintain regulatory conformance.	Team Leader Corporate Governance	
Privacy and Data Protection	Accepting the recommendations will increase the volume of data held. We will hold that data in line with our retention schedules.	Rich Clarke, Head of Audit Partnership.	
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	1 March 2021	
Public Health	No direct implications.		

Issue	Implications	Sign-off
Crime and Disorder	No direct implications.	
Procurement	Accepting the recommendations does not create a need for any new procurement exercise.	

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 assurance plan 2021/22** to Members. The report details how the plan is devised, the resources available through the Partnership and the specific audit activities and engagement 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) in 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 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 2020/21 audit plan, the 2021/22 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 appendix sets out the proposed plan for 2021/22, including background details on how we compiled the plan and how we propose to manage its delivery. The proposal is for the Committee to consider and approve the plan.
- 3.2 We confirm to Members that, although the plan has undergone broad consultation with management, it is compiled independently and without being subject to inappropriate influence.
- 3.3 The 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 We recommend Members approve the attached audit and assurance plan. The plan has been created through a process conforming with appropriate Standards and Regulations and in consultation with a broad range of officers. The Head of Audit Partnership believes this is the appropriate plan of work to support his opinion at year end.
-

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 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.

5.2 The overall resource allocation between the partners is consistent with the collaboration agreement and discussed with the Shared Service Board.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 On approval we will begin work towards delivering the plan immediately with the first engagement reports expected in July 2021. We will report to Members on progress in the autumn and raise any urgent matters as set out in the *Audit Charter*.

7. REPORT APPENDICES

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

- Appendix 1: Internal Audit & Assurance Plan 2021/22
-

8. 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.

Internal Audit & Assurance Plan 2021/22

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. The Standards set out how we must approach audit planning. The checklist below aims to provide immediate assurance to Members on our compliance with Standards and act as an index.

Standard		Complied
2010	A risk-based plan, setting out audit priorities consistent with the goals of the organisation.	<input checked="" type="checkbox"/>
2010 (PS) ¹	Linked to annual opinion need and internal audit Charter.	<input checked="" type="checkbox"/> see paragraph 5
2010.A1	Based on documented risk assessment, updated at least yearly and consulting Senior Management and Members.	<input checked="" type="checkbox"/> see paragraphs 8 to 17
2010.A2	Reflect expectations of Senior Management, Members and other stakeholders.	<input checked="" type="checkbox"/> see paragraphs 10-12
2020	Communicated to Senior Management for review and to Members for approval.	<input checked="" type="checkbox"/> see paragraph 16
2030	Ensure internal audit’s resources are fit and effectively used.	<input checked="" type="checkbox"/> see paragraphs 18-28
2030 (PS) ¹	Must explain how resource adequacy assessed, and set out results of any limits.	
2040	Must set up policies and procedures to ensure effective delivery.	<input checked="" type="checkbox"/> see Appendix I

3. In spring 2020 the Chartered Institute of Public Finance and Accounting (CIPFA) completed an External Quality Assessment (EQA) considering our compliance with the Standards. As reported to Members last summer, CIPFA decided we perform in Full Conformance with the Standards. This conclusion preserves the outstanding result of our previous EQA in 2015 from the Institute of Internal Audit (IIA). We believe we are the only audit service to have received ‘Fully Conforming’ assessments from both major professional bodies charged with overseeing public sector audit.

¹ The public sector variant of the Standards imposes additional obligations beyond the global IIA Standards.

4. CIPFA's report included some advisory recommendations to consider in further developing the audit service. We describe progress towards fulfilling those recommendations at paragraph 48.
5. 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 & Standards Committee approved the Charter in September 2019.
6. 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.
7. 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 and issues as they emerge.

Risk Assessments

8. 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. This plan for 2021/22 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

9. 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 all other published audit plans in the South-East.

Council Perspective and Expectations

10. The Council has set out its governance expectations in a [Local Code of Corporate Governance](#). This Code, based on the CIPFA/SOLACE Framework, commits the Council to seven principles of good governance:

- Behaving with integrity, displaying commitment to ethical values and respecting the rule of law.
 - Ensuring openness and comprehensive stakeholder engagement.
 - Defining outcomes with sustainable economic, social and environmental benefits.
 - Deciding the interventions necessary to optimise achieving intended outcomes.
 - Developing the entity's capacity including the ability of its leadership and the individuals within it.
 - Managing risks and performance through robust internal control and strong public financial management.
 - Carrying out good practices in transparency, reporting and audit to deliver effective accountability.
11. In its [Code of Audit Practice](#) the National Audit Office sets out the expectations external auditors should have when considering how an authority complies with its statutory duties. The relevant section is at 3.2 of the Code:

“[Local authorities must] maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal”.

12. We plan and deliver our work with these expectations in mind. Specifically they make plain to us that every part of the Council should aim to have effective internal control. Each part must work in line with strong ethical values and focused on achieving efficient use of public funds. Our role is to examine the Council's work against these expectations, providing assurance on success where we find it and working with officers to identify responses where we do not.

Audit Risk Review and Consultation

13. 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?

14. As with a typical risk assessment there are two main parts to consider. The first: the service's relative importance to the Council's overall objectives and controls and how errors would impact our opinion. Here we consider:

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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, Planning and Climate Change will be higher risk owing to the direct link with the Council's objectives.

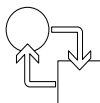


Support Service Risk: The extent interdependencies between Council departments. For example, many services rely on effective ICT.

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



Oversight Risk: Considering where other agencies 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 direct with the public and handle cash, for example licensing, are higher risk.

16. The results of these various risk assessments provide a provisional audit plan. We then take this provisional plan out to consultation. We meet Mangers, Heads of Service and Corporate Leadership Team to get their perspective on our assessment and give us updates on their sections. We set out that consultation below. We thank these officers for their time and insight in helping to support our planning.

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Role	Date	Role	Date
Head of Policy, Communications & Governance	25 Jan	Mid Kent Environmental Health Manager	8 Feb
Head of Finance	26 Jan	Parking Services Manager	9 Feb
Head of Commissioning & Business Improvement	26 Jan	Head of Mid Kent ICT	10 Feb
Head of Housing & Community Services	27 Jan	Head of Revenues & Benefits Shared Service	10 Feb
Chief Executive	28 Jan	Head of Planning	11 Feb
Director of Finance & Business Improvement	28 Jan	Head of Mid Kent HR	12 Feb
Director of Regeneration & Place	28 Jan	Street Scene Operations Manager	12 Feb
Mid Kent Services Director	28 Jan	Corporate Leadership Team (CLT, meeting as a group)	16 Feb
Head of Regeneration & Economic Development	28 Jan		

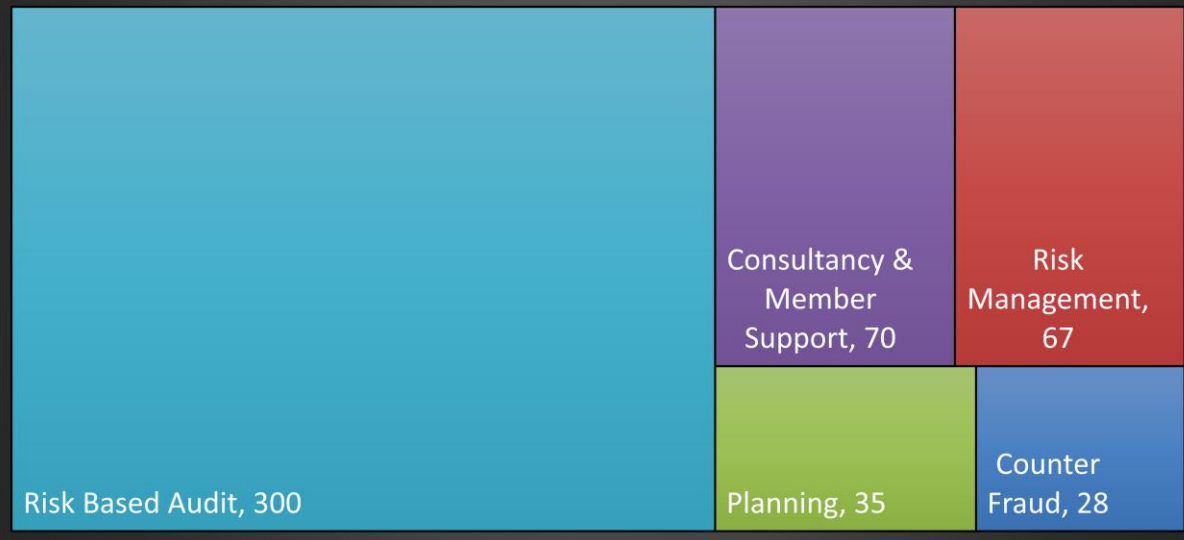
17. We set out the full audit universe and audit history in Appendix II.

Resources

18. 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.
19. We calculate an overall resource level based on the audit team establishment and a *chargeability* for each grade. *Chargeability* is the proportion of auditors' time we estimate they will spend engaged in work towards fulfilling the plan. This excludes, for example, management time, training, sickness and general administration. The chargeability assumption varies between grades from 60% (apprentices) up to 80% (for qualified auditors). This calculation produces an available number of days across the partnership of **1,760 days**.
20. This is slightly less than the 1,810 days expected in 2020/21. Although we do have increased efficiency in the team, we are also carrying vacancies. While we can use the money saved to source contract auditor support this will be at a more expensive day rate than an in-house employee. Subject to approval, we hope to fill both vacancies during mid-2021.
21. Each authority receives a share in keeping with their contribution to the overall partnership budget. For Maidstone this means the 2021/22 audit plan has **500 days** to assign.

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Division of Audit Plan Days Between Tasks: Maidstone 2021/22 (500 Days)



22. Standards oblige us to comment on resource adequacy. We do so considering:
- Whether we had enough to complete our prior year plan.
 - How the size and complexity of the organisation has changed.
 - How the organisation's risk appetite and profile have changed.
 - How the organisation's control environment has changed, including how it has responded to our audit findings.
 - Whether there have been significant changes to professional standards.
23. I am, in general, satisfied that we can deliver a robust Head of Audit opinion in Spring 2022. However, a note of caution. Typically, the list of audit engagements suggested as due by our general risk assessment is longer than we have capacity to deliver. This is not an inherent problem. Having a longer list for consultation helps achieve a broad discussion. However, for 2021/22 this 'gap' has increased and is growing.
24. In 2021/22 we will focus on how we can provide assurance in more efficient ways in future. This is a developing discussion within the profession. We will examine possibilities such as:
- Assurance mapping,
 - Efficiencies in our audit approach,
 - Smaller, more focused audits,
 - Cross-cutting audits.
25. We provide more information on these approaches in our **Quality and Improvement Plan** at Appendix I.

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26. We must also consider the skills, expertise and experience of our team. Following the exam success reported to Members during 2020/21, we now have every member of the audit management team holding either a Chartered Auditor or Accountant qualification². This is the qualification level precondition for service as Head of Audit. In the wider team, every auditor holds at least a Certified Auditor qualification or, with our two apprentices, is working towards its achievement. We also have within the team several specialist qualifications in both risk management and counter fraud. This gives us a wealth of relevant technical expertise to undertake the various specialist matters identified on our audit plan.
27. 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.
28. Based on the above, we believe we also have skills and expertise to deliver the 2021/22 audit plan.

² Or, for the Head of Audit Partnership, both.

Risk Based Audit: 300 Days

29. The primary part of our audit plan is delivering risk based audit engagements. We classify these into High and Medium priority engagements in our plan.

High Priority Engagements

30. These are the **10** engagements we believe we must undertake to support a robust opinion at year end. We will typically only remove a High Priority engagement from a plan agreed with Members after consulting with the Chair of the Audit, Governance & Standards Committee. The list below is alphabetical and doesn't suggest a ranking within the group or intended delivery order. We will agree timings with a suitable officer sponsor once we have a Member approved plan.

High Priority Engagement Title & Draft Objectives
<p>1. Climate Emergency Response</p> <ul style="list-style-type: none"> - To seek assurance on arrangements for tracking delivery of the Climate Emergency Response Action Plan
<p>2. Financial Planning</p> <ul style="list-style-type: none"> - To seek assurance on the viability and achievability of service savings targets - To seek assurance on the process of compiling financial forecasts
<p>3. Home Finder Scheme</p> <ul style="list-style-type: none"> - To seek assurance on the operation of the Scheme in line with requirements. - To seek assurance on accuracy of performance and financial information.
<p>4. IT Development³</p> <ul style="list-style-type: none"> - To seek assurance the arrangement for accepting development projects works in line with procedure and equitably between partners. - To seek assurance that IT development projects advance efficiently and effectively
<p>5. Phishing Response³</p> <ul style="list-style-type: none"> - To seek assurance on anti-phishing awareness, training and recording. - To seek assurance on compliance with procedure for dealing with phishing emails once received by end users (both user compliance and IT team response).
<p>6. Pre-Application Planning</p> <ul style="list-style-type: none"> - To seek assurance the Council fully accounts for Planning Performance Agreements (PPAs) to ensure they remain cost neutral. - To seek assurance on arrangements for checking content of PPAs to ensure they provide extra services. - To seek assurance on arrangements for ensuring independence and objectivity.

³ Shared service with Swale and Tunbridge Wells

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High Priority Engagement Title & Draft Objectives

7. Procurement⁴

- To seek assurance on compliance with Contract Standing Orders in procurement
- To seek assurance on monitoring information provided to partner authorities

8. Property Income (Commercial)

- To seek assurance on arrangements for collecting and managing commercial property income.
- To seek assurance on arrangements for managing commercial property occupancy (inc. re-lets/voids).

9. Property Income (Residential)

- To seek assurance on arrangements for collecting and managing residential property income.
- To seek assurance on arrangements for managing residential property accommodation (inc. re-lets/voids).

10. Residents' Parking⁵

- To seek assurance that the Council administers residents' parking permits in accordance with relevant legislation and council procedure.
- To seek assurance that income received from residents' parking permits is properly accounted for and recorded.
- To seek assurance that any refunds or discounts to residents' parking permits are appropriately managed.

Medium Priority Engagements

31. These are engagements that earn a place in our plan, but where completion could wait for a future year if needed. This level also incorporates some 'either/or' engagements. We are aware of the impact on officers of supporting an audit and so – typically – aim to have a maximum of three per lead officer per year. With medium priority engagements we will select the specific matters for review based on in-year risk assessments and in consultation with relevant officers. We will not typically consult Members before deciding which Medium Priority Engagements to take forward for delivery.
32. We have **19 engagements** on this list and aim to deliver **at least 8**. Any engagements we do not take forward for 2021/22 we will automatically consider as candidates for 2022/23. The list below is (nearly) alphabetical and doesn't suggest ranking within the group or intended delivery order. We will agree timings with a suitable officer sponsor once we have a Member approved plan.

⁴ Shared service with Tunbridge Wells

⁵ Shared service with Swale

Medium Priority Engagement Title & Draft Objectives

1. Apprenticeships⁶

- To seek assurance on managing the apprenticeship levy.

Either 2. Conservation & Heritage

- To seek assurance on arrangements for achieving conservation plan targets.
- To seek assurance that the Council manages conservation & heritage issues in planning in line with regulatory and statutory obligations.

Or 3. Local Plan Budget & Spending

- To seek assurance on arrangements for monitoring and managing spend related to local plan formulation.

4. Contract Management

- To seek assurance on how the Council has set out its expectations.
- To seek assurance on compliance with Council expectations.

5. Development Capital Projects

- To seek assurance on adherence to required project management approaches for major development projects (e.g. Innovation Centre, Mote Park Visitors' Centre).

6. Electoral Registration

- To seek assurance on compliance on Electoral Commission requirements in compiling and maintaining the electoral register.

Either 7. Environmental Enforcement

- To seek assurance on arrangements for complying with relevant policies when conducting enforcement action.
- To seek assurance the Council has evaluated the appropriate level of enforcement action, and arrangements for meeting that assessed level.

Or 8. Licensing Enforcement

- To seek assurance on arrangements for complying with relevant policies when conducting enforcement action.
- To seek assurance the Council has evaluated the appropriate level of enforcement action, and arrangements for meeting that assessed level.

9. Housing Benefit⁷

- To seek assurance on arrangements for quality assurance.

10. Internal Communications

- To seek assurance on how the Council monitors its internal communications.
- To seek assurance on compliance with procedures for internal communications.

Either 11. Leisure Services

- To seek assurance on arrangements for managing delivery of the leisure contract.
- To seek assurance on spending and arrangements for post-covid re-opening.

⁶ Shared service with Swale

⁷ Shared service with Tunbridge Wells

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Medium Priority Engagement Title & Draft Objectives

Or 12. Theatre Operations

- To seek assurance on arrangements for managing delivery of the Hazlitt Contract.
- To seek assurance on spending and arrangements for post-covid re-opening

13. Markets

- To seek assurance that market finances work in line with SFIs.

14. Payroll & Expenses⁸

- To seek assurance the Council amends payroll (including starters and leavers) accurately and in line with procedure.
- To seek assurance the Council manages expense claims properly.
- To seek assurance that information accurately links with other systems.

15. Performance Management

- To seek assurance on the quality of data used to build performance dashboards

16. Planning Administration⁸

- To seek assurance on the planning administration process' effectiveness and efficiency in complying with statutory and service demands.
- To seek assurance on the accuracy of financial and performance recording.

17. Street Scene

- To seek assurance on monitoring compliance with cleansing standards.
- To seek assurance on efficacy of process to manage and respond to street cleansing or repair notifications

18. Talent Management⁸

- To seek assurance on compliance with approach to identify high performing staff.
- To seek assurance on compliance with and effectiveness of policy to manage such staff once identified.

19. Voluntary Sector Liaison

- To seek assurance on how the Council manages relationships with voluntary sector organisations, including adherence to Voluntary Sector Compact.

⁸ Shared service with Swale

Follow-up of Agreed Actions

33. As part of closing an audit engagement we will typically agree actions with officers to put right any faults found and minimise risk. We dedicate around 29 days each year to following up these actions, reporting results to Senior Officers and Members as part of our routine reporting.
34. Where an action is significantly overdue or poses significant risk we will highlight this to the Corporate Leadership Team. We may also report seriously delinquent actions to this Committee and ask that Members invite the responsible officer to explain and account for delays.

Consultancy & Member Support: 70 days

35. We aim to keep around 10% of the audit plan days as a consultancy fund to provide general and specific extra advice or training to the Council. This will also include attendance and contribution to officer groups, such as the procurement group.
36. We also use consultancy days when we must expand an audit scope to cover specific concerns or findings identified during an audit. This effectively allows us to have some contingency to avoid having to cut short engagements and allow full exploration of significant findings.
37. We also use this budget to deliver specific extra work for the Council. In 2020/21 this involved, for example, redeployment to help the Council manage Covid-19 grant support to local businesses. In 2021/22 it might involve undertaking any post-payment checks the Government may need. We would conduct such work using different members of the audit team to ensure independence.
38. Finally we also use this budget to support Members, through attendance at and reporting to Committees. We also provide extra briefings and specific Member training as sought.

Risk Management: 67 days

39. At Maidstone our responsibility encompasses tasks such as leading the risk management framework, keeping and updating strategic and operational risk registers. We also compile risk reporting to Senior Officers and Members, including an annual report to this Committee.
40. We must note responsibility for managing the identified risks remains with the relevant risk owners. However, we can and do provide advice, support and training.

41. We set out our plans for developing risk management in 2021/22 in the Annual Risk Management Report, also on this meeting's agenda.

Planning: 35 days

42. We use this time to keep current with risks and issues across the Council, the wider public sector and the audit profession. This ensures our plan can remain dynamic and responsive to risk through the year. We also use it to manage delivery of the audit plan across the year and co-ordinate any extra support or advice. Finally, we use this time to complete the major part of our annual planning exercise, including updating risk assessments and consultation across the Council.

Counter Fraud Support: 28 days

43. At Maidstone our responsibilities include writing and updating Counter Fraud and Whistleblowing policies, providing a channel for officers to raise concerns under the Public Interest Disclosure Act. We also act as lead contact for the National Fraud Initiative, a data matching exercise co-ordinated by the Cabinet Office.
44. As well as these routine roles, we also use this time to conduct investigations on matters of concern. Although we do not have police powers to compel attendance, this has included conducting interviews under caution and handling evidence to a criminal standard.
45. For 2021/22 we hope to compile more detailed procedures for investigations, drawing on Cabinet Officer Standards. We also aim to draw up training to support compliance with the Bribery Act and make clear where people should report any matters of concern.

Delivering the Audit & Assurance Plan

46. We work in full conformance with the Public Sector Internal Audit Standards and relevant Codes of Ethics. The sections below include more detail on how we intend to preserve conformance.

External Quality Assessment

47. In July we reported to Members we had achieved a second successive **fully conforming** conclusion in an External Quality Assessment. The Assessment included a few recommendations for us to consider. The table below summarises our progress:

Recommendation	Current Position
Statement limiting distribution and use of audit reports and clarifying conformance to IPPF	We've included a statement (wording agreed with CIPFA) on our standard 20/21 reporting template. Complete
Enhance declaration of interest forms for audit staff	We have expanded our compliance and declaration approach, including a new online form. All staff in the service completed a fresh declaration in early 2021. Complete
Expand use of data analytics	We have opened discussion with some suppliers and neighbouring audit services on possible subjects for expansion. We will follow this further as part of our 21/22 improvements (see 'Quality and Improvement Plan', below) In progress
Provide greater comparative insight for clients	We have identified joint audits for 21/22 and will look to publish cross-partnership reports on select topics. In progress
Renew internal audit collaboration agreement that expired in 2019	Have restarted discussions among partners to clarify expectations of any new agreement. In progress

Quality Assurance & Improvement Programme

48. Standard 1300 directs the Head of Audit to set up and keep a quality assurance and improvement programme. There are two key objectives of the programme. First to document and clarify how we uphold the quality and integrity of our work. Second to make plain our commitment to self-reflection on reviewing and improving how we plan and deliver our work. The Standards encourage Member engagement with and oversight of the Programme.
49. We could show conformance in our External Quality Review. However our reviewer commented we could bring together and summarise our approach in a single document for Members.
50. We provide that document at Appendix I. It sets out:
 - Our ambitions on upholding a commitment to excellent quality audit work.
 - How we exercise oversight, review and uphold that quality.
 - How we will review our work over the coming months and years to revisit and consider how we might further improve.

Next Steps

51. We will begin planning the delivery of this plan as soon as it receives Member approval. We expect to begin fieldwork on the earliest 2021/22 engagements in late May/early June and start reporting results in July or August.
52. In November we will provide an Interim report to Members. This will summarise work completed up to then, with any significant findings and actions. We will also update Members on the progress of our Quality Assurance and Improvement Programme.
53. We aim to complete the plan in late Spring 2022 and will form our conclusions into a Head of Internal Audit Opinion to support the 2021/22 Annual Governance Statement. We reserve the right, as set out in the Audit Charter, to report significant findings to Members outside these scheduled reports. This includes seeking to meet privately with Members if needed.

Appendix I: Quality Assurance & Improvement Programme

1. Continuous improvement sits at the heart of internal audit as a profession. Both for the auditors who work within it and for the contribution it makes to organisations.
2. The Code of Ethics for auditors states: “[auditors] shall continually improve their proficiency and the effectiveness and quality of their services”.
3. The IIA’s Mission of Internal Audit talks about “enhancing organisational value”. With the definition of internal auditing being: “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations”. These are not new ideals. The IIA’s founding statement published 15 July 1947 dedicated internal audit to: “protecting the interests of the organisation, including pointing out existing deficiencies to provide a basis for appropriate corrective action”.
4. As this drive applies to the services we audit, the need to reflect and seek improvement applies no less to us in Mid Kent Audit. This Plan has two principal parts:

Quality

Setting out the standards we apply to our work, how we guarantee and uphold them.

Improvement

Setting out how we examine our work, to consider its efficiency, effectiveness and place in industry best practice.

5. These features sit within the context of Mid Kent Audit’s overall vision:

“To be the highest quality local authority audit service in the UK”.

6. We will update this plan regularly, no less than once each year. In particular we will form the “Improvement” section into a rolling programme to ensure our internal ‘universe’ receives no less review in search of improvement than we apply to our partner authorities.
7. The Mid Kent Audit team fully embraces the professionalism and high standards inherent to the modern auditor. We remain grateful for the support, encouragement and challenge of members and officers in our partner authorities to help achieve this goal.

Quality



Mid Kent Audit's last two external quality assessments confirmed we work in full conformance with the Public Sector Internal Audit Standards and the International Professional Practices Framework.

This is the standard we seek to uphold. We do so in four main ways:

Team Expectations and Approach

8. We expect our team to uphold the IIA Code of Ethics, ensuring they work with *Integrity, Objectivity, Confidentiality* and *Competency* always. This means working as a professional auditor, supporting colleagues and clients as part of the audit team.
9. We recognise the markers of quality work listed in Standard 2420 (Quality of Communications). These state that we must be accurate, objective, clear, concise, constructive, complete and timely. We recognise our overall goal in helping our clients by providing assurance and supporting improvement across their control environment and service delivery.

Training and Development

10. We have consistently preserved strong financial and budgetary support for training and development throughout the team. Our ambition is to support every member of Mid Kent Audit in earning and keeping a suitable professional qualification.
11. This is why we, as well as compulsory training demanded as part of our employment with Maidstone Borough Council, set aside at least 40 hours each year for training. The 40 hours level is consistent with keeping qualification as a [Certified Internal Auditor](#), but where other qualifications have different needs we will typically support these too. We also keep a financial budget equal to supporting that volume of training.
12. Our starting position is to support all further training and development where there is benefit to the Partnership and the individual. Naturally we will face practical and budgetary restraints that may vary over time. Nevertheless if we can find a way to support development, we will seek to do so. We also celebrate the team's training and achievement in our reporting to Members and others.
13. We are also a service keen to look outside our borders for development and best practice. While ensuring we continue to deliver our core service, we welcome opportunities to engage with and learn from the broader audit profession.

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Tools and Guidance

14. We use Ideagen's Pentana Audit Management Software. This is an industry leading software package, tailored for use in Mid Kent Audit. Pentana is online, ensuring our team can work collaboratively and electronically from any location with an Internet connection. Pentana guides an auditor step-by-step through completing an audit engagement. If followed, that guidance will ensure our work remains fully conforming with the Standards.
15. The guidance is available within Pentana using 'mouse over' and document libraries. We also keep a shared drive accessible to the whole audit team with library versions of guidance and copies of relevant rules and publications (for example, the Standards themselves).
16. We have a group membership of the Institute of Internal Audit. This gives every member of the audit team access to online support and guidance from the internal audit profession.
17. We aim to introduce new versions of Pentana within three months of their release. This will ensure we remain current in using the latest software, while also giving the time and opportunity to consider how best to use any new or amended features.
18. We have within Pentana a library of templates (including report and brief templates) for auditors to use in engagements. These ensure consistency in approach and presentation, but also allow for variation and innovation to support quality work.

Supervision, Review and Coaching

19. As required by Standards 2340, all work we complete is supervised. We embrace the three objectives of that supervision set out in the standard:
 - **Objectives are achieved:** Each engagement sets objectives in its brief. The engagement reviewer(s) will ensure the final report is clear in fulfilment of those objectives and reporting of results.
 - **Quality is assured:** The engagement reviewer(s) will ensure files contain documentation in line with Standard 2330 (sufficient, reliable, relevant and useful to support engagement results). They will also ensure auditors follow all relevant guidance with variance clearly set out.
 - **Staff are developed:** The engagement reviewer(s) will ensure the team fully consider their own development goals and will support them in their achievement.
20. We save evidence of review through use of Pentana's 'Completed' and 'Approved' markers. We may raise review notes during an engagement, but will often not save them when closing

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a file. Similarly, we will not typically keep interim drafts of work in Pentana after completing an engagement, but auditors may extract and file separately to aid their personal development.

21. Review is not directive on matters of professional judgement. Each auditor is a professional in their own right, bound by the Code of Ethics to act with integrity. This includes a responsibility for auditors to not follow audit approaches or findings that conflict with their professional judgement. We have in place a *Professional Judgement Policy* setting out how we deal with differences of judgement that arise within audit teams. However as set out in Standard 2340, the Chief Audit Executive holds overall responsibility.
22. Depending on the risk associated with the audit and team experience, engagements may have either or both an 'A' or 'B' Reviewer. Their different standard roles are:
 - **A Reviewer:** Responsible for direct supervision of the lead auditor(s) including detailed review of fieldwork. Will read draft client communications to ensure consistency with the documented engagement findings. The A Reviewer will typically have a more 'hands on' or coaching style engagement with the lead auditor(s), so will play a key role in development. An A Reviewer could be a Manager or Senior Auditor.
 - **B Reviewer:** Responsible for overall quality assurance and issuing formal client communications. The 'B' Reviewer will always be a Manager.
23. Where an engagement has a single reviewer, that reviewer will always be a Manager combining both 'A' and 'B' roles.
24. Deciding whether to have a single or dual review rests with the manager who has responsibility for the relevant audit plan. Typically, engagements led by a Senior Auditor will have a single reviewer and those led by an Apprentice will have dual review. The Manager should set out the early review rationale at Step P0 and affirm after planning is complete at Step P6. Where circumstances of the engagement need a later decision to expand the review team, the decision and reasoning will feature in at Step F1.
25. An *Issuing Managers' Guide* sets out considerations for Managers when issuing formal client communication. This Guide also includes the conditions under which the Chief Audit Executive has delegated his responsibilities under Standard 2440 (Disseminating Results).
26. Besides review of individual engagements we also undertake periodic **Cold Reviews**. These take place after completing the engagement file and seek to look back on the work to assess quality and conformance with Standards. Twice a year we will undertake a **Cold Review** of a sample of files using the checklist and approach set out in the appendix to this plan.

Improvement

27. An important feature of our Improvement plan is to ensure we take a comprehensive look at our approach. Just like an audit universe must eventually touch on every part of our work. The examination won't necessarily result in change, but we ought not assume anything is perfect and could not bear improvement. At the appendix we show the internal 'audit universe'.
28. Deciding where to focus will draw on three principal sources of information:
- **Professional Updates:** Information produced by the profession, for example IIA Position Papers. We have a specific approach to considering these, set out below.
 - **External Feedback:** Information from our partner authorities on the strengths and weaknesses of the service and where we might develop.
 - **Internal Feedback:** Information drawn from review (including cold review) as well as comments from the audit team on how they find working with our approach.

Professional Updates

Professional institutes such as the IIA and CIPFA sometimes issue guidance for internal auditors to consider. For the IIA, such guidance may also feature in the International Professional Practices Framework. The IIA publishes its updates (available to members only) [at this link](#). We will also receive updates through bodies such as the Internal Audit Standards Advisory Board, the Local Authority Chief Auditors' Network and Kent and London Audit Groups.



29. We will consider relevant updates through the Management Team. As well as influencing the QAIP, we may put updates to more immediate use, for example by informing training.
30. We will go through a similar approach when considering whether and how to adopt significant updates to our audit management software.

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Building the Improvement Plan



Considering evidence

- Professional Updates
- External Feedback
- Internal Feedback



Select Quarterly Focus Area

- Rebuttable presumption in favour of scheduled plan area
- Endorsed at Management Team
- MT commission area scope and approach



Review Focus Area

- Various possible review approaches, including internal working groups, hired consultants, client focus groups &c.
- No single approach, and mixed methods acceptable



Recommended Actions

- Paper to Management Team
- Three recommendation types: (1) Retain area unchanged, (2) Further work, (3) Changes recommended
- Paper will also consider **how** to implement change



Implement Change

- Could be immediate if relatively low impact
- Could wait until new audit year
- Could be after further review and consultation



Review Change

- Annual summary of QAIP considered by Management Team and at Team Day
- QAIP results also reported to Senior Management and Members
- Review periods build into papers recommending significant change

One key point is that this approach exists to preserve structure, ensure quality and treat issues consistently. It is not a barrier to innovation. We welcome people's ideas on how to improve our work, in big and small ways. We will continue to innovate outside this formal structure where doing so improves the service we offer.

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The Improvement Plan

We aim to keep a two-year rolling programme of matters to examine within the audit universe. Below is the current draft. We will keep a current version in the audit team shared drive. We will also publish a report each year to Members.

Year	Focus Area	Draft Objectives	Timing
2020/21	Assurance Ratings & Finding Priorities	Clarify the purpose of our use of assurance ratings and findings priorities. Consider whether the current definitions remain fit for that purpose and propose alternatives for consultation with officers and members.	Proposal for consultation by Christmas 2020. Consult and pilot through 2021/22 & introduce 2022.
	Ethics	Fulfil EQA recommendation of improved declarations of interest within the audit team.	Proposal by early 2021 to go live alongside Spring 2021 appraisals.
	Client Liaison	Review our approach to engaging with audit contacts to explain the process and purpose of audit.	Proposal by Spring 2021 to go live when introducing 21/22 plan engagements.
2021/22	Review Process	Consider our approach to completing file reviews and ensuring it supports consistency, quality and development.	Proposal by Summer 2021 for introduction across Autumn
	Assurance Mapping	Using anticipated new Pentana feature, draw up an approach to creating assurance maps across authorities.	Proposal by Christmas 2021 for incorporation into 22/23 audit planning.
	Test Completion	Following on from looking at file reviews, consider approach to testing. In particular scope for greater use of computer assisted audit tools.	Proposal by early 2022 for implementation in 22/23 audit year.
	Risks & Controls	Review our guidance to support auditors in identifying and documenting risks and controls	Proposal by spring 2022 for 22/23 year engagements.

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Annex I: Mid Kent Audit Process Universe

Planning Processes

- **Background Research & Intelligence:** How we research businesses and systems.
- **Client Liaison:** The information we provide to clients. **2020/21 Plan**
- **Budget Planning:** How we draw up and monitor budgets.
- **Risks & Controls:** Identifying, documenting and assessing. **2021/22 Plan**
- **Test Creation:** Drawing up efficient and effective tests

Fieldwork Processes

- **Documentation:** What we keep on file and how it is presented.
- **Test Completion:** Approaches including tools such as CAATs. **2021/22 Plan**
- **Sampling:** Selection apt samples and documenting rationale for selection.
- **Findings/Causes/Effects:** Identifying findings and ascribing causes and effects.
- **Amending Work Programmes:** How and when to amend and documenting any changes.

Reporting Processes

- **Assurance & Finding Ratings:** Is our system of ranking fit for purpose? **2020/21 Plan**
- **Follow-Up:** Is our approach effective at efficiently supporting improvement?
- **Report Formats:** Considering templates and standard content.
- **Review Process:** Does it ensure quality and support team development. **2021/22 Plan**

Other Processes

- **Annual Planning:** Process to support developing the plan for Members
- **Ethics:** Ensuring and documenting adherence to code. **2020/21 Plan**
- **Audit Management Software:** What package we use and when to upgrade.
- **Assurance Mapping:** How we consolidate information on assurance. **2021/22 Plan**
- **Consolidated Reporting:** Reporting results of our work at an authority level to Senior Officers and Members.

Annex II: Cold Review Process and Checklist

We will be piloting cold reviews in Spring 2021. We will add the final approved checklist arising from those pilots in the Quality and Improvement Plan from mid-2021/22 onwards.

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Appendix II: Audit Universe

The “Audit Universe” is our running record of all processes 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: (Key: **D** = Delivered Engagement, **P** = Planned Engagement in 2020/21, **H** = High Priority on 2021/22 Plan, **M** = Medium Priority on 2021/22 Plan)

Process Type	Process	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Accounting & Finance	Budgetary Control					D			
	Creditors	D		D		D	D		
	Debtors		D		D			P	
	Financial Planning	D	D						H
	General Ledger			D					
	Insurance				D				
	Payroll & Expenses	D	D	D	D				M
	Treasury Management	D		D			D		
Communi-cations	Internal Communications								M
	Public Consultations							P	
	Social Media/Website	D					D		
Community Safety	CCTV & Monitoring								
	Licensing		D	D		D			M
	Public Health & Wellbeing			D					
	Safety Partnerships		D		D		D		
Corporate	Business Continuity		D						
	Climate Emergency								H
	Complaint Handling				D				
	Contract Management				D				M
	Counter Fraud					D			
	Customer Services						D		
	Declarations of Interest	D				D			
	Emergency Planning	D			D				
	Information Management	D		D		D			
	Internal Audit		D				D		
	Legal Services				D				
	Performance Management			D					M
	Procurement		D		D				H
	Project Management					D		P	
	Risk Management	D							
Safeguarding		D			D				
Subsidiary Company				D					

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Process Type	Process	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Culture & Economy	Economic Development				D			P	M
	Leisure Services	D							M
	Markets					D			M
	Museum					D			
	Parks		D				D		
	Theatre			D					M
	Visitor Economy								
Democracy	Election Management			D					
	Electoral Registration								M
	Member Development				D				
	Members' Allowances	D	D				D		
Environment	Cemeteries & Crematoria			D					
	Environmental Enforcement		D				D		M
	Grounds Maintenance		D	D					
	Street Scene				D				M
	Waste Collection	D				D		P	
Environmental Health	Air Quality							P	
	Food Safety				D				
Estate Management	Facilities Management			D					
	Property Acquisition								
	Property Income								H
Housing	Home Improvement Grants				D				
	Homelessness		D		D	D		P	
	Home Finder Scheme								H
Human Resources	Absence Management					D			
	Health & Safety			D			D		
	HR Policy				D				
	Recruitment						D		
	Staff Performance Mgmt								M
	Training & Development		D						M
	Workforce Planning								
Information Technology	IT Asset Management							P	
	IT Backup & Recovery				D			P	
	IT Development								H
	Network Security	D	D	D		D		P	H
	Technical Support	D					D		
Parking	Parking Enforcement			D			D		
	Parking Income	D			D				
	Residents' Parking			D					H
Planning	Building Control					D			
	Conservation & Heritage								M

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Process Type	Process	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
	Development Management						D	P	
	Land Charges				D				
	Local Plans					D			M
	Planning Administration								M
	Planning Enforcement					D			
	Pre-Application Planning								H
	Section 106/Developer Income		D					P	
Revenues & Benefits	Business Rates	D	D		D				
	Council Tax	D	D				D		
	Council Tax Reduction Scheme					D			
	Disc. Housing Payments			D			D		
	Housing Benefit	D		D					M
	Universal Credit						D		

Audit, Governance & Standards Committee

15 March 2021

External Auditor's Audit Plan 2020/21

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

Executive Summary

This report from the Council's External Auditor, Grant Thornton, sets out the planned approach to delivering the audit of the 2020/21 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

Noting

This report makes the following recommendations to this Committee:

1. That the external auditor's audit plan, attached at Appendix 1 be noted.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	15 March 2021

External Auditor's Audit Plan 2020/21

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's ability to discharge its responsibilities in relation to the 2020/21 financial statements audit and value for money conclusion.	Ellie Dunnet, Head of Finance
Cross Cutting Objectives	The recommendations set out above will not have any material impact on the cross cutting objectives.	Ellie Dunnet, Head of Finance
Risk Management	This report is presented for information only and has no decisions which give rise to risk management implications.	Ellie Dunnet, Head of Finance
Financial	The scale fee published by Public Sector Audit Appointments Ltd is £38,866. However, the final audit fee for 2020/21 remains subject to discussion with Grant Thornton.	Ellie Dunnet, Head of Finance
Staffing	No implications identified.	Ellie Dunnet, Head of Finance
Legal	The Local Audit and Accountability Act 2014 sets out the framework for audit of local authorities. The recommendation is to note the report and has no decisions which give rise to legal implications.	Team Leader Corporate Governance
Privacy and Data Protection	None identified.	
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Ellie Dunnet, Head of Finance
Public Health	No implications identified.	Ellie Dunnet, Head of Finance
Crime and Disorder	No implications identified.	Ellie Dunnet, Head of Finance

Procurement	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.

3. AVAILABLE OPTIONS

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

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The 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 scale audit fee set by Public Sector Audit Appointments Ltd (PSAA) for 2020/21 is £38,866 for Maidstone Borough Council. It is anticipated that Grant Thornton will propose an increase to the scale fee to accommodate the additional work required by regulators, new auditing standards and the new Value for Money code issued by the National Audit Office. The proposed fee for 2020/21 remains subject to discussion with Grant Thornton and will be reported to members at the July meeting of the Audit, Governance and Standards Committee.

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.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 Next steps are outlined within Appendix 1.

8. REPORT APPENDICES

- Appendix 1: Maidstone Borough Council Audit Plan
-

9. BACKGROUND PAPERS

None

Maidstone Borough Council audit plan

Year ending 31 March 2021

Maidstone Borough Council
15 March 2021



Contents



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Section	Page	
Key matters	3	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 Council 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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Key matters

Factors

New Code of Audit Practice

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money (VFM). These changes are explained in more detail on page 14 but the key points are that there are a new set of key criteria, there is more extensive reporting requirements and the replacement of the binary qualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

7/ Adoption of new auditing standards - Estimates

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As we explain in more detail on page 8 this will require greater disclosure by the Council as well as additional work by the auditor.

Impact of Covid-19 pandemic

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of a large number of public sector organisations. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

The Council has faced significant pressure in 2020-21 due to the Covid-19 pandemic. This included additional costs, resources required to process business grants to support the community and loss of income from sources such as parking and leisure facilities. This has impacted Council's long and medium term budgetary plans.

Our response

- As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- The revisions to the standard have been incorporated into our audit approach and methodology. We have already identified the material accounting estimates likely to be impacted by the new auditing standard and will work with management to agree the information required and the disclosures required in the financial statements.
- At this time we have not identified a specific COVID-19 significant audit risk (as we did for local government audits in 2019/20 which covered a number of risks including the availability of Council staff to produce accounts, year end stock take completion and valuation uncertainties in relation to land and buildings). We will revisit this assessment should the current pressures the sector faces continues and impacts year end accounting and auditing processes.
- We will consider the impact of Covid-19 as part of our value for work procedures.
- We will continue to provide you with sector updates from via our Audit Committee updates.

Introduction and headlines

Purpose

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

Respective responsibilities

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

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:

- Council'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 Council for securing economy, efficiency and effectiveness in your use of resources.

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

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

Significant risks

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

- Fraud in expenditure recognition
- Management override of controls
- Valuation of land and buildings
- Valuation of net pension liability

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

Materiality

We have determined planning materiality to be £1.7m (PY £1.8m) for the Council, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £85k (PY £90k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. The requirements of the new Code can be found on page 14.

Audit logistics

Our planning visit will take place in March and our final visit will take place in July and August. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £TBC (PY: £53,316) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings 79	<p>The Council revalues its land and buildings on a rolling five-yearly basis.. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value 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"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Council's asset register • 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.
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Revenue recognition	<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 for the Council's income, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable 	This risk has been rebutted
08 Fraud in expenditure recognition	<p>As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to budgets and set targets and we had regard to this when planning and performing our audit procedures.</p> <p>Management could defer recognition of expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. • inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. We will also compare listings of accruals to the previous year to ensure completeness of accrued items. • investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Council'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 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"> • 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; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • 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; • 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 • 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.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Governance and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties
- Depreciation
- 83 Year end provisions and accruals
- 83 Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- 84 How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures, we will engage with Council staff and Those Charged With Governance to make enquiries around the Council's activities, including accounting estimates. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

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 our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- 85. We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 14).

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the Council's financial statements, which resulted in 1 recommendation being reported in our 2019/20 Audit Findings Report. Due to the timing of the declarations we are not yet able to follow up on the implementation of our recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	<p>Declarations of interest</p> <p>As part of our 2019/20 audit, during our testing of related party disclosures we requested the latest declarations for review. The Council sends these to members on an annual basis and they were sent on 9 April 2020. At the time of the audit work in July 2020, 17 forms remained outstanding and had not been received from members.</p> <p>We recommended that the process for managing the distribution and collections of returns is reviewed and the importance of responding is reiterated with members.</p>	<p>We are not yet able to follow up on this recommendation due to the timing of the declarations.</p> <p>We will report on progress in our next report to the Audit, Governance and Standards Committee.</p>

Materiality

The concept of materiality

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

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit £1.7m (PY £1.8m) for the Council, which equates to 2% of your forecast 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 £50,000 for related party transactions and Senior officer 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.

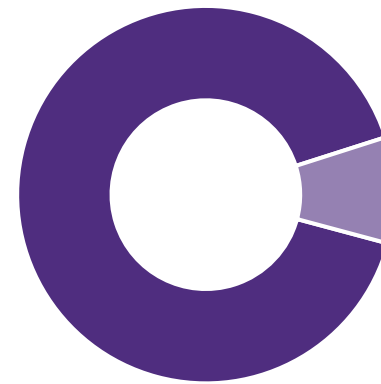
Matters we will report to the Audit Committee

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, Governance and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £85k (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.

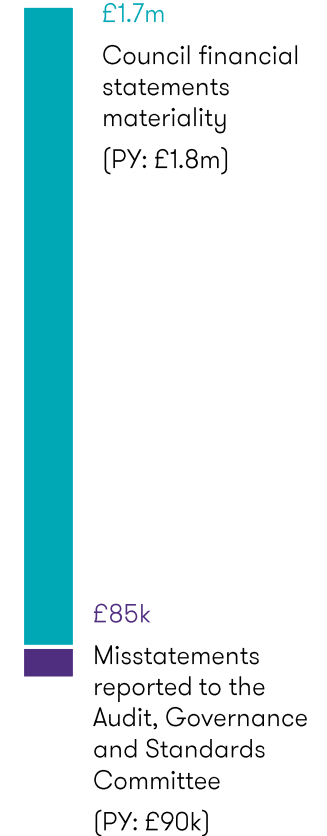
Prior year gross operating costs

£89.2m Council



■ Prior year gross operating costs

Materiality



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

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



We have not identified any risks of significant weaknesses at this stage.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

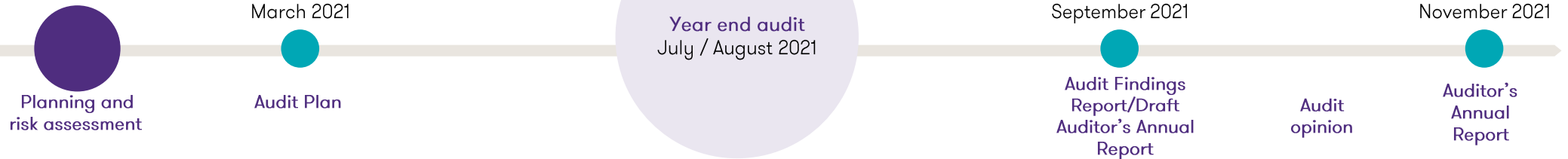
The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

Audit logistics and team



06

Paul Dossett, 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

Audited body responsibilities

Where audited bodies 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 audits. 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 agreed timetable 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 for testing
- 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.

Audit fees

As referred to on page 14, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

Additionally, 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, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, will be discussed with the Director of Finance and Business Improvement and brought before the next Audit, Governance and Standards Committee.

Assumptions

In setting the above fees, we have assumed that the Council 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 \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Maidstone Borough Council Audit	£44,866	£53,316	£TBC
Total audit fees (excluding VAT)	£44,866	£53,316	£TBC

Audit fees – detailed analysis

Scale fee published by PSAA	£38,866
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£TBC
Enhanced audit procedures for Property, Plant and Equipment	£TBC
Enhanced audit procedures for Pensions	£TBC
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£TBC
Increased audit requirements of revised ISAs	£TBC
Total audit fees (excluding VAT)	£TBC

Independence and 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 (Revised 2019) 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

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








None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Capital receipts grant	22,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £22,000 in comparison to the statutory 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.


Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance




The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
95 ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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Agenda Item 17

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

15 March 2021

Budget Strategy – Risk Assessment Update

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

Executive Summary

There have been no major changes in the pattern of budget risks faced by the Council since the last update to this Committee. The Council has now agreed a budget for the coming financial year, but the climate of continued risk and uncertainty faced by the Council means that great care will be required to manage within the framework that it has set out. An update has been made to the risk register to reflect the reduced risk associated with EU transition, but this is offset by the increased risk posed by the volume and complexity of burdens imposed on the Council as a result of Covid-19.

This report makes the following recommendations to this Committee:

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

Timetable

Meeting	Date
Audit, Governance and Standards Committee	15 March 2021

Budget Strategy – Risk Assessment Update

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial 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
Cross Cutting Objectives	The cross cutting objectives are reflected in the MTFS and the budget.	Director of Finance and Business Improvement
Risk Management	Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. Specific risks are set out in Appendix A.	Director of Finance and Business Improvement
Financial	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.	Director of Finance and Business Improvement
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement
Legal	The Council has a statutory obligation to set a balanced budget and development of	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.	
Privacy and Data Protection	No implications.	Director of Finance and Business Improvement
Equalities	The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to 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
Public Health	None identified.	Director of Finance and Business Improvement
Crime and Disorder	None identified.	Director of Finance and Business Improvement
Procurement	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 Council set a balanced revenue budget for 2021/22 at its meeting on 24th February 2021. Although a deficit of £1.6 million was projected for the year 2021/22, arising primarily from the continued impact of Covid-19, this can be covered from reserves to achieve a balanced position. It is not sustainable to continue drawing on reserves to meet budget deficits, so the Medium Term Financial Strategy agreed by Council includes savings plans which will eliminate the ongoing budget gap by 2023/24.
- 2.3 The projected deficit of £1.6 million for next year is based on our estimates of ongoing income and expenditure. An unringfenced Covid-19 expenditure pressures grant of £860,000 (our share of a total £1.55 billion grant for all English local authorities) has been dealt with separately, so that it may be used, in line with government guidance, specifically for Covid-19 response and recovery.
- 2.4 Council agreed, when setting the budget for 2021/22, that the minimum level of uncommitted General Fund balances would be increased from £2 million to £4 million, in light of the heightened risk environment that we now face. The uncommitted General Fund balance as at 31 March 2021 is projected to be £7.7 million, so this leaves the Council with a reasonable margin of safety.

Medium Term Financial Strategy

- 2.5 As described above, the Council's Medium Term Financial Strategy is designed to eliminate the ongoing budget deficit. The Council's track record of delivering savings provides assurance that this programme can be delivered and the budget deficit eliminated within a reasonable time-frame.
- 2.6 However, projections for 2022/23 and future years are subject to considerable uncertainty. A major variable is the nature of the government's future framework for local government. A new funding settlement had been promised following the end of the four-year settlement that came to an end in 2019/20. This was postponed for one year, owing to Brexit, and has now been postponed for a further year because the Chancellor of the Exchequer announced plans for only one year in his Autumn Spending Review.
- 2.7 The uncertainty about funding future funding arrangements makes long term planning very difficult. Whilst the Council seeks at all times to build financial resilience and minimise risk, many of the key financial variables, including the permitted level of Council Tax increase and our share of business rates, are set by central government. If the government is unable to provide any certainty about its future plans, the Council is prevented from planning with confidence and risks losing opportunities to invest in public services.

Delivering the capital budget

- 2.8 The capital programme plays a vital part in delivering the Council's corporate objectives. The Council has borrowed to fund the capital

programme, for the first time, this year. The availability of funding is therefore important.

- 2.9 The cost of the capital programme is spread over the lifetime of investments, so it has not been as directly affected by Covid-19 related pressures. However, there are revenue consequences to the capital programme. The cost of borrowing is factored into the revenue budget, along with a Minimum Revenue Provision which spreads the cost of loan repayment over the lifetime of an asset.
- 2.10 The capital programme for 2020/21 was reviewed in the light of the Covid-19 pandemic. The majority of projects in the current programme were either already under way, were required for health and safety reasons, or had to be carried out to meet contractual commitments. However, a number of projects were deferred to 2021/22, which had the effect of reducing the in-year revenue costs of capital expenditure.
- 2.11 The Chancellor's Spending Review in November 2020 signalled a willingness to support local authority capital investment, particularly for housing and regeneration, by reducing the cost of borrowing from the Public Works Loan Board by 1%. This has reduced the risk, identified previously, of the Council not being able to fund its capital programme.

External factors

- 2.12 The Covid-19 pandemic shows how vulnerable the Council is to external factors. The corporate risk register therefore now includes new risks relating to (a) major emergencies such as a new pandemic and (b) a resurgence of the current Covid-19 pandemic.
- 2.13 Covid-19 has impacted directly on the budget, ie through additional direct costs, loss of Council Tax and Business Rates income, and loss of income from fees, charges and other sources. This has already been reflected in the Budget Risk Register.
- 2.14 Previously, the potential loss of income from other sources such as new capital investment was described as 'commercialisation fails to deliver additional income'. This reflected the branding of the original strategy, but is now no longer appropriate, given that the investments in question have been incorporated into the Council's capital portfolio. The risk has now been re-named 'other income fails to achieve budget'.
- 2.15 Covid-19 and the range of government support for local authorities and the community have led to a rapid increase in the volume and complexity of reporting and regulation. Scaling up administrative resources to address the increased volume and complexity of reporting and regulation may divert attention from other priorities. Ultimately, failure to comply with new regulatory requirements could pose financial and reputational risk for the Council. This has now been recognised in the risk register by increasing the risk 'increased complexity of government legislation'.
- 2.16 The other major external risk previously identified was potential adverse financial outcomes from a disorderly Brexit. This risk was downgraded in

January 2021 following the transition to new trading arrangements with the EU. Although elements of these arrangements still have to be implemented, the low level of disruption in January and February would appear to justify a further downgrading of this risk. The overall impact on the economy of Brexit, for example if UK exports are affected adversely by the new trading arrangements, remains to be quantified.

2.17 A summary of changes in risk levels is set out below.

	Risk	Factor considered	Implications for risk profile
K	Increased complexity of government regulation	Increase in the volume and complexity of reporting and regulation arising from Covid-19.	Impact – minor (no change) Likelihood – possible (increased)
N	Adverse financial consequences from a disorderly Brexit	This risk has been mitigated through the negotiation of a trade deal with the EU. There has been a low level of disruption in the short term following the introduction of new trading arrangements. There remain risks associated with the longer term economic impact.	Impact – moderate (reduced) Likelihood – possible (no change)

2.18 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. The information is also set out in the form of a bar chart.

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

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.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

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

5. RISK

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

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 will be completed for the 2021/22 budget and the results will be reported to Service Committees as part of the budget setting process.
-

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.
-

8. REPORT APPENDICES

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

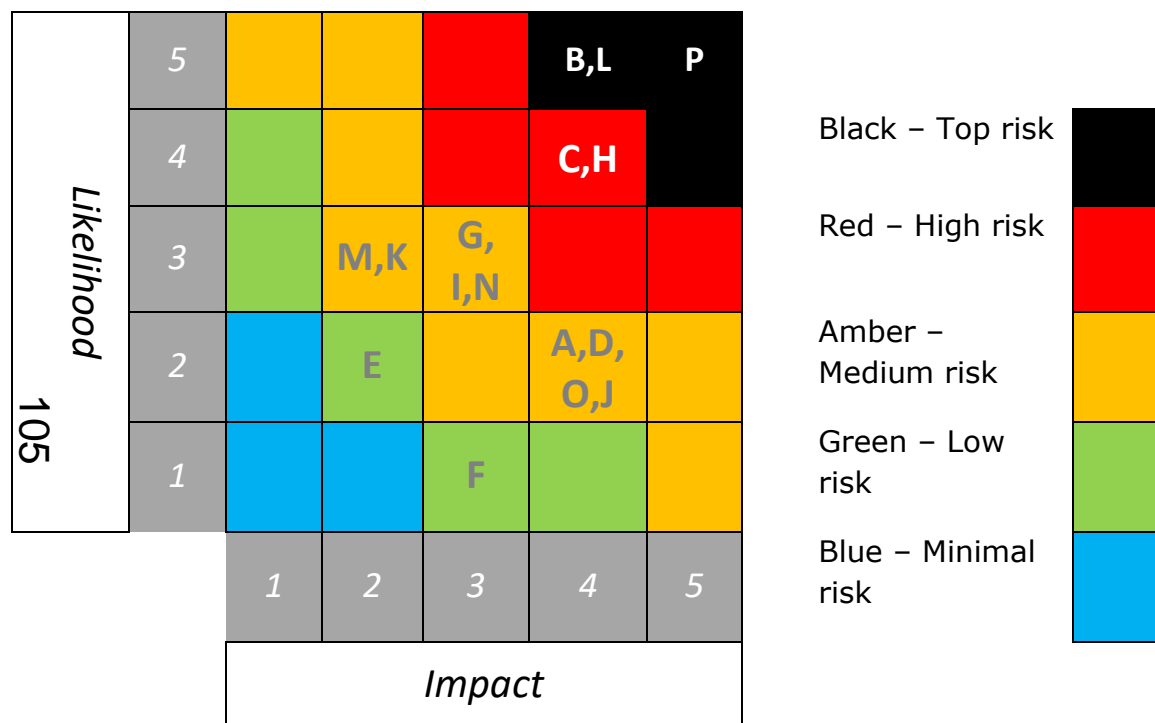
- Appendix A: Budget Strategy Risks
-

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.

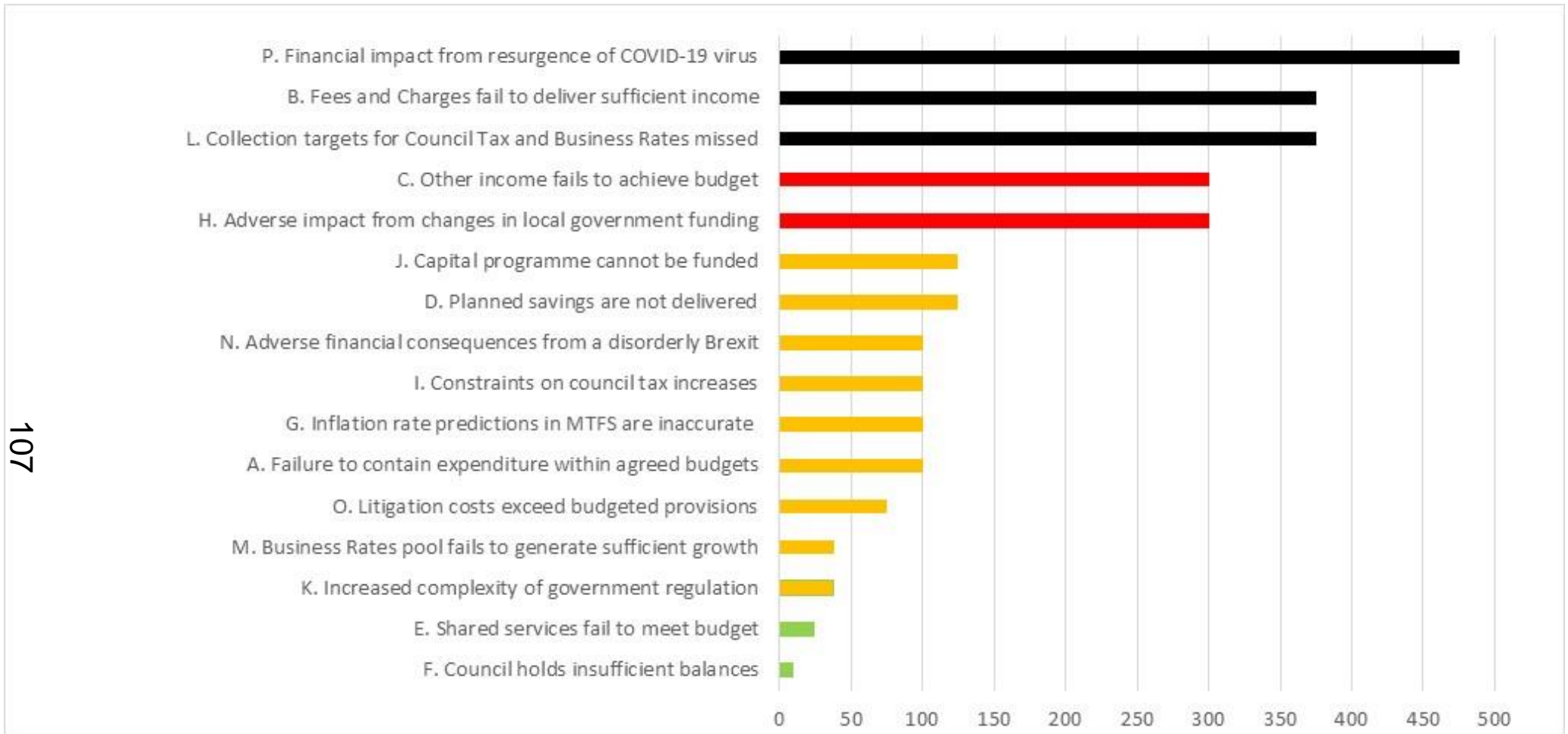


A. Failure to contain expenditure within agreed budgets	I. Constraints on council tax increases
B. Fees and Charges fail to deliver sufficient income	J. Capital programme cannot be funded
C. Other income fails to achieve budget	K. Increased complexity of government regulation
D. Planned savings are not delivered	L. Collection targets for Council Tax and Business Rates missed
E. Shared services fail to meet budget	M. Business Rates pool fails to generate sufficient growth
F. Council holds insufficient balances	N. Adverse financial consequences from a disorderly Brexit
G. Inflation rate predictions in MTFS are inaccurate	O. Litigation costs exceed budgeted provisions
H. Adverse impact from changes in local government funding	P. Financial impact from a resurgence of Covid-19

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
P. Financial impact from resurgence of COVID-19 virus	1	250	750	500	95	475
B. Fees and Charges fail to deliver sufficient income	2=	200	600	400	95	380
L. Collection targets for Council Tax and Business Rates missed	2=	200	600	400	95	380
C. Other income fails to achieve budget	4=	200	600	400	75	300
H. Adverse impact from changes in local government funding	4=	100	900	400	75	300
J. Capital programme cannot be funded	6=	250	750	500	25	125
D. Planned savings are not delivered	6=	250	750	500	25	125
A. Failure to contain expenditure within agreed budgets	8=	200	600	400	25	100
N. Adverse financial consequences from a disorderly Brexit	8=	100	300	200	50	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	12	100	500	300	25	75
M. Business Rates pool fails to generate sufficient growth	13=	50	100	75	50	38
K. Increased complexity of government regulation	13=	50	100	75	50	38
E. Shared services fail to meet budget	15	50	150	100	25	25
F. Council holds insufficient balances	16	100	300	200	5	10

Chart - Budget risks



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	<p>Failure to contain expenditure within agreed budgets</p> <p>The Council overspends overall against its agreed budget for the year</p>	<p>Failure to meet the budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.</p>	<ul style="list-style-type: none"> - Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2021/22. - Strong controls over expenditure and established process for recovering from overspends 	4	2	8
B	<p>Fees & Charges fail to deliver sufficient income</p> <p>Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.</p>	<p>The total value of all Council income from fees and charges is 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"> - Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised. 	4	5	20
C	<p>Other income fails to achieve budget</p> <p>In addition to fees and charges, the Council relies on other income from capital investment, which may not deliver the expected level of income.</p>	<p>The medium term financial strategy includes a contribution from investment opportunities, so any shortfall would have an impact on the overall strategy.</p> <p>Income generation from investment activities supports the revenue budget and is required in order to pay back capital investment.</p>	<ul style="list-style-type: none"> - The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses. - Individual risks associated with specific projects within the capital strategy will be assessed, both as part of the project 	4	4	16

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Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
			appraisal process and during the course of delivering the projects.			
109 D	<p>Planned savings are not delivered</p> <p>Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget</p>	<p>The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation.</p> <p>Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<ul style="list-style-type: none"> - The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process. - Savings proposals are separately identified and monitored in the Council's general ledger. - The ability to achieve the targeted savings is monitored quarterly in budget monitoring reports to the Corporate Leadership Team and to Service Committees. 	4	2	8
E	<p>Shared Services</p> <p>Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.</p>	<p>Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<p>The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.</p>	2	2	4
F	<p>Insufficient Balances</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>	<ul style="list-style-type: none"> - The Council has set a lower limit below which General Fund balances cannot fall of £4 million. - At the beginning of the 2020/21 financial year unallocated General Fund reserves stood at £7.8 million. 	3	1	3
G	<p>Inflation rate predications in MTFS are inaccurate</p>	<p>Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.</p>	<ul style="list-style-type: none"> - Allowances for inflation are developed from three key threads: 	3	3	9

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	Actual levels are significantly above or below prediction	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.	<ul style="list-style-type: none"> ○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally <p>- MTFS inflation projections are based on the government's 2% inflation target.</p>			
H 110	<p>Adverse impact from changes in local government funding</p> <p>The financial implications of the new local government funding regime, now unlikely to be introduced until 2022/23, remain unclear.</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>- 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>	4	4	16
I	<p>Constraints on council tax increases</p> <p>The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than the referendum limit.</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>- 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>Capital Programme cannot be funded</p> <p>Reduction or total loss of funding sources means that the capital programme cannot be delivered</p>	<p>The main sources of funding are:</p> <ul style="list-style-type: none"> ○ Internal borrowing ○ PWLB borrowing ○ New Homes Bonus ○ Capital Grants ○ Developer contributions (\$106) 	<p>- Council has been able to fund the capital programme without recourse to borrowing so far,</p> <p>- Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria.</p>	4	2	8

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		A reduction in this funding will mean that future schemes cannot be delivered.	- 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.			
K	<p>Increased volume and complexity of government regulation</p> <p>Covid-19 and the range of government support for local authorities and the community have led to a rapid increase in the volume and complexity of reporting and regulation.</p>	<p>Scaling up administrative resources to address the increased volume and complexity of reporting and regulation may divert attention from other priorities.</p> <p>Ultimately, failure to comply with new regulatory requirements could pose financial and reputational risk for the Council.</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	3	6
L	<p>Business Rates & Council Tax collection</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, Covid-19 is leading to a reduction in collection rates.</p>	4	5	20
M	<p>Business Rates pool</p> <p>Changes to rateable value (RV) or instability of business rates growth within the pool may not generate projected levels of income</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>- The pool is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of the pool across Kent as a whole is projected to be around £10m in 2020/21.</p> <p>- Provisions have been made when projecting business rates income for bad debts and losses on</p>	2	3	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
			appeal so any loss of income would relate to the excess over the provisions already made.			
N	Adverse financial consequences from a disorderly Brexit. A trade deal has now been agreed with the EU but risks remain of disruption to traffic and unfavourable economic impacts, particularly for exporters.	Short term - Increased costs in delivering services, eg arising from traffic congestion Medium term/ long term – Slower economic growth owing to loss of markets for exporters.	- Thorough preparation for Brexit, with an officer Brexit business continuity planning group to co-ordinate our response and liaise with other Kent authorities	3	3	9
O	Litigation costs exceed budgeted provisions. 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.	- Corporate Leadership Team is updated regularly on outstanding legal cases. - Appropriate professional advice is taken at all times.	4	2	8
P	Financial impact from a resurgence of COVID-19 A resurgence of the pandemic would see similar impact to those experienced in the first wave, eg 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.	- Senior officer group mobilised to address short term impacts - Mitigations to be developed over longer term	5	5	25

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