

Discussions with Management

Date

Venue Maidstone Borough Council

Present Rachel Patton ICA
Eilie Dunnet Chief Financial Accountant

Auditor question	Response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2014/15?	2014/15 is the first year of the Business Rates Pool with KCC, and any retained growth will need to be accounted for appropriately. Some disclosure notes may change in order to reflect this.
Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Accounting policies are kept under review throughout the year. There are no material changes expected to the council's accounting policies.
Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	There are no known changes.
How would you assess the quality of the Council's control environment, including the system of internal control?	<p>The quality of the Council's internal control processes is assessed in the Head of Internal Audit's annual report on the effectiveness of the Council's framework for governance, risk management and control. This is to be completed by the year-end.</p> <p>Internal Audit reports up to December 2014 have been reviewed and have been unqualified. Discussion with the Head of Internal Audit, identified that the Council's system of internal control is generally sound.</p>
How would you assess the process for reviewing the effectiveness of internal control?	The Corporate Leadership Team undertakes an annual review of internal controls and this is reported in the Annual Governance Statement. Internal Audit reviews the effectiveness of

	internal control on an ongoing basis and reports the results to senior management and the Audit Committee.
How do the Council's risk management processes link to financial reporting?	A risk assessment on the Council's 2014/15 Budget Strategy was considered by the Audit Committee. Quarterly budget monitoring reports to the Corporate Leadership Team and Cabinet identify financial risks. Monthly Management Accounts are sent to budget holders.

Auditor question	Response
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	Procedures are in place to ensure compliance with financial regulations and contract procedure rules. These elements of the Council's constitution formally identify the procedures required in relation to financial transactions to reduce the risk of fraud. All financial systems maintained by the Council are subject to an annual review by Internal Audit and are monitored by the Head of Finance & Resources who takes responsibility for approving all contractual commitments greater than £50,000. Payments exceeding £40,000 are approved by the Chief Accountant, Head of Finance and Resources or s151 Officer. A dedicated fraud team is in place to identify and respond to fraud relating to Benefits and Council Tax fraud. The council also have a whistle blowing charter and anti-fraud and corruption policy in place.
What has been the outcome of these arrangements so far this year?	No specific fraud risks have been identified in respect of internal Council business.
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Benefits and Council Tax.
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	None have been identified.
Have any reports been made under the Bribery Act?	No.
As a management team, how do you communicate risk issues (including fraud) to those charged with	Regular consultation between the Director of Regeneration & Communities (S151 Officer), the Head of Finance & Resources and the Head of Audit Partnership on actions taken to

governance?	identify and respond to fraud. Strategic Risk Register in place and Internal Audit carry out an exercise at year end with the insurance company Zurich. There is a regular agenda item at Corporate Leadership Team meetings via the Corporate Governance Group.
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	These matters are communicated to staff through the policies and other documentation on the Council's intranet and through staff briefings and team meetings. The Council has adopted a Code of Conduct for employees, which forms part of the Staff Handbook.
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	Any litigation or claims brought against the council are assessed by the council's legal team. These are brought to the attention of the finance team for financial reporting purposes and accounted for in accordance with accounting standards.
Is there any use of financial instruments, including derivatives?	The council do not use any complex financial instruments.
Are you aware of any significant transaction outside the normal course of business?	No.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.
Are you aware of any guarantee contracts?	No.
Are you aware of allegations of fraud, errors, or other irregularities during the period?	Only in relation to Benefits and Council Tax.
Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?	None have been identified to date, confirmed in discussion with Monitoring Officer.
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	There was a routine HMRC check-up in July 2014, mainly focused on payroll which did not identify any significant issues.
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	Critical judgements are disclosed at note 2 to the draft financial statements. These consist of Pensions, Business Rates Appeals provision, PPE valuations, and service contracts (Waste Collection and Park & Ride).
Where the financial statements include amounts based on	Estimates are made taking into account historical experience, current trends and other

<p>significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?</p>	<p>relevant factors. The areas where there is a significant risk of material adjustment are:</p> <ul style="list-style-type: none"> • Property, Plant & Equipment • Pensions Liability • Arrears • Financial Instruments. <p>Details of accounting estimates, nature of data used and the degree of uncertainty will be provided in the financial statements and supporting working papers.</p>
<p>Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?</p>	<p>The Council has been notified of a number of potential claims arising from former employees exposed to asbestos during their period of employment with the Council. The Council's previous insurers MMI are reviewing these claims and settlement figures will be calculated if liability is established. Small amounts are involved in this.</p>
<p>Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?</p>	<p>A risk assessment of the 2015/16 budget strategy was undertaken; this report was considered by the Audit Committee and recommended to Cabinet for acceptance.</p> <p>Assessment of the going concern basis will be carried out at year end.</p>
<p>Although the public sector interpretation of IAS1 means that the financial statements should be prepared on a going concern basis, management is still required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?</p>	<p>The Council has adopted a five year budget strategy which sets out both revenue and capital projections. A major review of the budget strategy is planned for 2015/16 alongside the Strategic Plan review in time for 2016/17. This will involve projecting the level of resources available alongside growth pressures; there will be a risk assessment of the level of savings required to achieve a balanced budget without reducing General Fund balances below an acceptable level.</p>
<p>Can you provide details of those solicitors utilised by the</p>	<p>Pinsent Mason – possible joint venture.</p>

<p>Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>DACBeechcroft – Enterprise Hub. Eversheds – ICT agreement & pensions issues. Trowers and Hamlyn – MKIP employment model.</p>
<p>Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Capita Asset Services provides treasury management advisory services. Harrisons have been consulted for Valuations and Insurance services. KPMG are consulted for VAT advice.</p>
<p>Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?</p>	<p>No specific issues have been reported.</p>