

AGENDA

AUDIT COMMITTEE MEETING



Date: Monday 24 November 2014
Time: 6.30 p.m.
Venue: Town Hall, High Street,
Maidstone

Membership:

Councillors Black (Chairman), Daley, Harper, Long
and Perry

Page No.

1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members
4. Disclosures by Members and Officers
5. Disclosures of Lobbying
6. To consider whether any items should be taken in private because of the possible disclosure of exempt information
7. Minutes of the meeting held on 15 September 2014

1 - 7

Continued Over/:

Issued on 13 November 2014

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact DEBBIE SNOOK on 01622 602030**. To find out more about the work of the Committee, please visit www.maidstone.gov.uk

**Alison Broom, Chief Executive, Maidstone Borough Council,
Maidstone House, King Street, Maidstone, Kent ME15 6JQ**

8.	Report of the Head of Policy and Communications - Annual Governance Statement Action Plan Update	8 - 14
9.	Report of the Head of Audit Partnership - Member Development Programme	15 - 20
10.	Report of the Director of Regeneration and Communities - Treasury Management Strategy Mid-Year Performance 2014/15	21 - 28
11.	Report of the Head of Finance and Resources - External Auditor's Annual Audit Letter	29 - 38
12.	Report of the Director of Regeneration and Communities - Audit Committee Update - November 2014	39 - 55
13.	Audit Committee Work Programme 2014/15	56 - 58

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 15 SEPTEMBER 2014

Present: Councillor Black (Chairman) and
Councillors Daley, Harper, Long and Perry

Also Present: Mr Keith Hosea and Mr Darren Wells of Grant
Thornton (External Auditor)

24. **APOLOGIES FOR ABSENCE**

It was noted that Councillor Harper had indicated that he would be late in arriving at the meeting.

25. **NOTIFICATION OF SUBSTITUTE MEMBERS**

There were no Substitute Members.

26. **NOTIFICATION OF VISITING MEMBERS**

There were no Visiting Members.

27. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

28. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

29. **EXEMPT ITEMS**

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

30. **MINUTES OF THE MEETING HELD ON 14 JULY 2014**

RESOLVED: That the Minutes of the meeting held on 14 July 2014 be approved as a correct record and signed.

31. **MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 14 JULY 2014**

Minute 12 – Local Code of Corporate Governance – Member Training

In response to a question by a Member, the Head of Finance and Resources confirmed that training would be arranged for Members/Substitute Members of the Audit Committee.

32. IRRECOVERABLE BUSINESS RATES

At the request of Councillor Daley, Stephen McGinnes, the Head of Revenues and Benefits, presented a report reviewing the risks associated with the business rates recovery processes adopted within the Revenues and Benefits Team. It was noted that whilst decisions relating to the writing-off of irrecoverable business rates were delegated to the Leader of the Council, the Audit Committee had a role in ensuring that the systems/controls in place were effective and proportionate.

In response to concerns about the length of some periods of non-payment, the Head of Revenues and Benefits confirmed that where the Council was unable to collect the business rates that were payable, it took a robust approach to recovery. This involved progressive action which would typically include:

- Reminder for non-payment
- Final notice for non-payment
- Summons for non-payment
- Application to the Magistrate's Court for a liability order
- Instruction of a bailiff to recover
- Bankruptcy or liquidation, where appropriate
- Proceedings to seek committal to prison (individuals, not limited companies)

In response to questions, the Officers confirmed that:

- In terms of Council Tax and business rates arrears, the Council was not a preferred creditor for the purposes of liquidation.
- The Council was proactive in the use of enforcement agents and bailiffs to recover debt.
- Having exhausted all recovery processes in trying to collect unpaid business rates, the Council could continue to hold the debt as outstanding or consider writing it off. If the debt was written off and the debtor subsequently identified, there was nothing to stop the Council reinstating the debt. There were risks associated with holding a debt as outstanding with no scope for recovery.
- With regard to speeding up/improving the process, the last internal audit inspection of business rates (valuation, liability and billing) had concluded that the controls in place provided a substantial level of assurance. The collection rate was benchmarked regularly against other local authorities in Kent with positive results. The Strategic Leadership and Corporate Services Overview and Scrutiny Committee would be reviewing the Council's Debt Recovery Policy, including the arrangements to recover unpaid business rates.
- Within the Revenues and Benefits Team, twenty members of staff were dedicated to billing local residents and businesses for Council Tax and business rates and collecting the same utilising all tools available.

Whilst the average in year collection rate in respect of business rates was 97.66%, the actual amount ultimately recovered was nearer 99%. The Council maintained a provision for bad debts, currently between 1% and 0.5% of the total amount billed.

The Committee, wishing to consider the specific details of a business rate debt identified for write-off in private:

RESOLVED: That the public be excluded from the meeting for the following item of business because of the likely disclosure of exempt information for the reason specified having applied the Public Interest Test:

**Head of Schedule 12 A and
Brief Description**

Consideration of the Specific Details of a Business Rate Debt Identified for Write-Off 3 - Financial/Business Affairs

It was noted that in this case the company had gone into liquidation and there were no funds available to pay unsecured creditors. Directors of limited companies were not individually liable, and could go on to set up new companies.

RESOLVED:

1. That the current arrangements whereby decisions relating to the writing-off of irrecoverable business rates are delegated to the Leader of the Council be noted.
2. That the intention of the Strategic Leadership and Corporate Services Overview and Scrutiny Committee to review the Council's Debt Recovery Policy be noted.
3. That the Committee's concerns regarding the risk of companies, which have gone into liquidation with insufficient funds to pay creditors, setting up to trade under new companies be referred to the Strategic Leadership and Corporate Services Overview and Scrutiny Committee for consideration as part of its review of the Council's Debt Recovery Policy.

Note: Councillor Harper entered the meeting during consideration of this report (6.55 p.m.).

33. **INTERNAL AUDIT - FOLLOW-UP REPORT UPDATE**

Rich Clarke, the Head of Audit Partnership, submitted a report setting out the progress against the high priority recommendations identified in relation to the three audit projects which had received limited assurance in 2013/14 (Housing Options (Housing Allocations Policy), Museum Collections and Artefacts and Freedom of Information). The report also

detailed changes to the audit follow up process generally. It was noted that:

- The three reports highlighted by the Committee plus all other reports from 2013/14 were part of the new follow up process currently in train. Previously, the audit follow up process had been to re-visit projects in full at a fixed period after issue of the report. Although there was some flexibility depending upon the implementation dates of individual recommendations, in general, the process did not reliably capture follow up of longer term recommendations. The process was also inconsistent in the way that data was collated and reported both to senior management and to Members. The revised process for 2014/15 aimed to address these issues in order to provide more useful and timely information.
- As this was the start of a new process, there was a considerable backlog to work through, but it was hoped to report the first findings to Officers in mid-November 2014 and to the Audit Committee in January 2015.
- The audit report on Housing Options (Housing Allocations Policy) was only issued in June 2014, with the recommendations beginning to fall due from the end of September 2014.
- In terms of the audit report on the Museum Collections and Artefacts: A collections review methodology was being developed alongside a programme for undertaking cataloguing; in the meantime work was continuing on the cataloguing of the Collections. Funding constraints continued to restrict progress in cataloguing. Work had been undertaken with the Finance Team to ensure that VAT on items disposed of by sale was treated correctly.
- In terms of the audit report on Freedom of Information: A disclosure log detailing requests and responses had gone live on the Council's website on 1 September 2014. A Performance Indicator was being developed for Freedom of Information requests, Environmental Information requests and Subject Access requests. The current correspondence system was being reviewed to identify improvements for dealing with information requests. The Council had recently appointed an Information Manager who was compiling a procedure note setting out the relevant roles and responsibilities.

In response to questions and comments by Members, the Officers explained that:

- Recommendations were made by Internal Audit to management for implementation. In the case of the cataloguing of the Museum Collections and Artefacts, if the recommendations were not implemented by January 2015, and management continued to cite funding constraints, then the Committee would have the opportunity

to ask specific questions as to the reasons why and the action to be taken.

- They would refer Members' suggestions regarding the possibility of actively seeking bequests and funding from charitable trusts and foundations for the purpose of expediting the cataloguing of the Museum Collections to the Head of Commercial and Economic Development as the Officer responsible.

RESOLVED:

1. That the progress against the high priority recommendations identified in the Museum Collections and Artefacts and Freedom of Information audit reports be noted.
2. That the changes to the Internal Audit follow up process generally, as set out in the report of the Head of Audit Partnership, be noted.

34. EXTERNAL AUDITOR'S AUDIT FINDINGS REPORT 2013/14

Ellie Dunnet, Chief Accountant, introduced a report setting out the audited Statement of Accounts for 2013/14, including the External Auditor's Audit Findings Report, in accordance with the requirements of the Accounts and Audit Regulations 2011.

The Chief Accountant advised the Committee that following the publication of the agenda, minor alterations had been made to the audited Statement of Accounts. These related to the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement and Note 5 to the Accounts (Adjustments between Accounting Basis and Funding Basis under Regulations).

The Chairman said that he had agreed to take the amended version of the audited Statement of Accounts as an urgent item as the Accounts needed to be considered in their entirety at this meeting of the Committee.

It was noted that:

- The audit was substantially complete and a small number of amendments had been made as a result, but none of these had affected the Council's General Fund Balance as at 31 March 2014. Changes had also been made to improve the presentation and clarity of the Statement of Accounts.
- The Audit Findings Report identified two control deficiencies arising from the audit of the financial statements. These related to access controls over the Academy system and improvements to the process for the reconciliation of this system to the main financial ledger. The External Auditor's recommendations relating to these matters had been accepted by the Officers and the actions would be implemented as agreed.

- Two further recommendations had been made in respect of the Value for Money conclusion. These recommendations related to the Council's approach to financial planning and the setting of minimum levels of reserves. They had been accepted by the Officers and would be addressed as part of the consideration of the Medium Term Financial Strategy by Overview and Scrutiny and the Cabinet .
- Overall the report concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of its resources. The External Auditor intended to issue an unqualified opinion on the 2013/14 Statement of Accounts and an unqualified Value for Money Conclusion. There were a small number of outstanding issues to be addressed, but it was not anticipated that these would have any impact on the Statement of Accounts or the proposed audit opinion.

Reference was also made in the report to the minor reduction in the overall fee payable to Grant Thornton arising from a change in requirements for grant claim certification and to the Letter of Representation written by the Council to the External Auditor for the purpose of expressing an opinion as to whether the financial statements gave a true and fair view in accordance with International Financial Reporting Standards.

In response to questions by Members, the Officers explained that:

- The Council had approximately £5m in general reserves, which was low compared to some other local authorities, but in excess of 20% of the Council's net revenue spend. The decision could be made to increase the level of reserves, but it would be difficult to do so at present given the need to make budgetary savings. The External Auditor had made a recommendation that the Council should review the level of useable reserves, and this would be raised with the Strategic Leadership and Corporate Services Overview and Scrutiny Budget Working Group and with the Cabinet as part of its consideration of the Medium Term Financial Strategy. The External Auditor would be looking for the Council to justify its policy in relation to reserves whilst having regard to the financial pressures local authorities are under and the Council's ability to change the level of balances significantly.
- The reason for the amber rating in relation to two accounting areas (Revenue Recognition Policies and Estimates) was that an accounting policy had been omitted for two revenue streams. This had now been rectified and included in the amended accounts.

RESOLVED:

1. That the External Auditor's Audit Findings Report, as set out in draft form as Appendix A to the report of the Head of Finance and Resources, be approved and that in approving the report, the Committee notes the amendments to the draft Statement of

Accounts and agrees the response to the recommendations contained in the Action Plan.

2. That with the proviso that there are a few outstanding issues to be finalised, and this might result in some minor changes, the Statement of Accounts for 2013/14, as set out in amended Appendix B to the report of the Head of Finance and Resources, be approved.
3. That the Council's Letter of Representation to the External Auditor, attached as Appendix C to the report of the Head of Finance and Resources, be approved.
4. That the overall reduction in the audit fee payable to Grant Thornton be noted.

35. AUDIT COMMITTEE WORK PROGRAMME 2014/15

RESOLVED: That the Audit Committee Work Programme 2014/15 be noted.

36. DURATION OF MEETING

6.35 p.m. to 7.50 p.m.

Agenda Item 8

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 24 NOVEMBER 2014

REPORT OF HEAD OF POLICY AND COMMUNICATIONS

Report prepared by Angela Woodhouse

1. ANNUAL GOVERNANCE STATEMENT ACTION PLAN UPDATE

1.1 Issue for Decision

- 1.1.1 To note the update on the action plan as reported and recommend further actions as appropriate.

1.2 Recommendation of Head of Policy and Communications

- 1.2.1 That the update on the annual governance action plan be noted and the Committee recommend further action if required.

1.3 Reasons for Recommendation

- 1.3.1 The Audit Committee are a key part of the governance structure at the Council. In July this year the Committee approved the annual governance statement, it was agreed that an update on the action plan arising from the annual governance statement would be reported to the Audit Committee on a six monthly basis. This provides the opportunity for greater Member involvement throughout the year. An updated action plan has been provided at **Appendix A**
- 1.3.2 Since the action plan was presented in July action has been taken in all the areas highlighted for further development. The Corporate Governance working group has held two quarterly meetings. The group considered and agreed a revision to budget headings in the constitution within the budget and procedure rules to reflect CIPFA requirements. The Council's risk management approach has also been considered and referred to Corporate Leadership Team. It has been agreed that a new strategic risk register will be created in 2015-16 for the new Strategic Plan.
- 1.3.3 With regard to an update on the audit reports with limited assurance in 2013-14, updates were not available as the reviews are subject to formal sign-off. The Audit Team can provide an update on the action

taken in respect of those reviews at the meeting should Members wish to ask questions regarding there progress.

- 1.3.4 The Cabinet has been proactive in engaging the public in decision making through its approach to the budget and strategic plan consultation. This has involved face to face engagement with residents of the borough at venues throughout the borough to determine what residents would prioritise in relation to budget spending. The Council has also engaged Design South East to assist with resident involvement in the Local Plan. A new Parish Charter is also in the process of being drafted to ensure a consistent and agreed approach to parish engagement for key services such as Planning.

1.4 Alternative Action and why not Recommended

- 1.4.1 The Committee could choose not to receive an update on the progress with the Annual Governance Statement. However, this would reduce member involvement in Governance.

1.5 Impact on Corporate Objectives

- 1.6.1 The Council has a Corporate Priority to achieve corporate and customer excellence, high standards of corporate governance are integral to achieving this priority

1.6 Risk Management

- 1.7.1 The Statement incorporates the essential elements of a well-managed Council which ensures that many elements of the Strategic Risk Register are addressed.

1.7 Other Implications

1.7.1

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety

- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management

1.8 Relevant Documents

1.8.1 Appendices

Appendix A - Annual Governance Statement Action Plan Update

<u>IS THIS A KEY DECISION REPORT?</u>		<u>THIS BOX MUST BE COMPLETED</u>	
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, this is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			

Updated Actions for 2014-15

Governance Issue	Action Update	By When	By Whom
<p>Implementation of the Information Management Action Plan</p>	<p>The vision and principles for information management have been agreed</p> <p>An information management officer was appointed in September. A number of actions have been completed:</p> <ul style="list-style-type: none"> • New Freedom of Information and Data Protection Guidance developed • Training Programme for staff under development • Asset Register creation begun • Public Disclosure Log for Freedom of Information Requests now on the internet • Begun drafting Information Sharing Policy • Produced guidance for staff on information Sharing • Research carried out for Information Management Strategy and Information Sharing Policy • Identification of approach to the Information 	<p>The action plan has targets for the next eighteen months.</p>	<p>Angela Woodhouse, Head of Policy and Communications</p>

Governance Issue	Action Update	By When	By Whom
	<p>Risk Register</p> <ul style="list-style-type: none"> • Research into best practice and approach to record retention and disposal 		
Embedding Corporate Governance and Ensuring Best Practice is identified	The Corporate Governance Working Group has met twice and will continue to meet quarterly.	Quarterly meetings with updates to Audit Committee and CLT every six months.	Angela Woodhouse, Head of Policy and Communications
<p>21</p> <p>A new Communication and Engagement Strategy will be put in place to run from 2015-2020 alongside the Strategic Plan</p>	<p>Work has been undertaken to identify the key stakeholders.</p> <p>The Communication and Engagement Strategy will support the delivery of the Strategic Plan work has begun with Heads of Service to identify key communication and engagement actions that will support the strategic priorities.</p> <p>A strategy and action plan will be developed based on the agreed strategic priorities to be finalised.</p>	<p>(Proposed timetable) Drafted November - February</p> <p>Overview and Scrutiny Invited to Review March 2015.</p> <p>Approved by Cabinet April 2015.</p>	Angela Woodhouse, Head of Policy and Communications
The residents survey identified that more work needed to be done on developing residents involvement in decision making as only 29% of respondents believe they	<p>We have run you said we did campaigns in the Borough Update</p> <p>A Cabinet Budget and Strategic Plan Road show commenced in October and will be completed in November to inform the development of the Strategic Plan and Medium Term Financial</p>	September 2014	Angela Woodhouse, Head of Policy and Communications

Governance Issue	Action Update	By When	By Whom
can influence decision making in their area.	Strategy.		
Updating the Strategic Risk Register	Corporate Leadership Team have considered the current risk register in the context of the new strategic plan. It has been agreed that a new strategic risk register will be created in 2015/16	2015-16	Corporate Leadership Team
<div> <div>1</div> <div>3</div> </div> Audit Reviews with Limited Assurance: Housing Freedom of Information Museum Collections	Action Plans have been put in place. A full update will be provided to Audit Committee in January.	To be reviewed as part of the six monthly review of the annual governance statement action plan	Head of Housing and Community Services Head of Policy and Communications Head of Commercial and Economic Development
New Strategic Plan for 2015/2020	<p>A corporate planning timetable will be agreed by Cabinet in September 2014</p> <p>The Cabinet has agreed a draft set of priorities for consultation.</p> <p>A budget and strategic plan road show is underway. The results of which will feed into the strategic plan</p> <p>A series of briefings have been held with staff to look at how the priorities can be taken forward.</p>	<p>(Proposed timetable) Drafted September – October 2014.</p> <p>Cabinet Approved for Consultation December 2014.</p> <p>Overview and Scrutiny Invited to Review January 2015.</p> <p>Approved by Cabinet</p>	Cabinet and Corporate Leadership Team

Governance Issue	Action Update	By When	By Whom
	Heads of Service have looked at the actions to achieve the priorities and unit managers have considered possible measures.	February 2015.	

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

24 NOVEMBER 2014

REPORT OF HEAD OF AUDIT PARTNERSHIP

Report prepared by Rich Clarke – Head of Audit Partnership

1. MEMBER DEVELOPMENT PROGRAMME

1.1 Issue for Decision

1.1.1 As included on the Committee's work programme and acknowledged in the Council's Annual Governance Statement, there is a need to drive forward improvement in Members' Professional Development. The Member Development Policy, approved in July 2013, delegated responsibility for defining and pursuing development needs to individual committees. This paper responds to that direction by setting out a proposed Member Development Programme linked to the Committee's Terms of Reference and wider requirements as set out in CIPFA's Audit Committee guide.

1.1.2 Members should consider the proposal and the extent to which it reflects their own view of the Development needs of the Committee. Subject to that consideration and comment, officers will then work with Members to deliver suitable development sessions to address identified needs.

1.2 Recommendation of the Head of Audit Partnership

1.2.1 That the Audit Committee **approves** the outline Member Development Programme included in this report, subject to any comments or amendments.

1.2.2 That the Audit Committee **agrees** that sessions on Strategic Risk Management and Countering Fraud will form the first two sessions

1.2.3 That the Audit Committee **resolves** to keep its development needs under review in line with the Committee's overall work programme and keep the future shape of the Development Programme updated.

1.3 Reasons for Recommendation

1.3.1 Members generally and members of the Audit Committee in particular, play a key role in ensuring the Council's systems of control, risk management and corporate governance are designed and operating effectively. In order to properly fulfil these responsibilities Members should ensure that their

knowledge of and insight into current practice remains current. This Development Programme is intended to provide Members with that knowledge and insight, with sufficient coverage and flexibility to be adaptive to assessed development needs and demands of the Committee's work programme.

1.4 Alternative Action and why not Recommended

1.4.1 The programme proposed is intended to be comprehensive in addressing each and every part of this Committee's terms of reference and the broader guidance for Audit Committees contained within CIPFA's Guide. Members may wish to adopt a more varied – or indeed narrower – Development Programme but doing so would risk either not giving proper consideration to the Committee's breadth of responsibilities or taking up valuable time in Development which does not directly assist the Committee's function. Consequently, no alternative action is recommended, although we note that there is considerable scope within the proposal to allow Members to shape a particular path through the Development Programme that is responsive to identified needs and workflow demands.

1.5 Impact on Corporate Objectives

1.5.1 The role of the Audit Committee includes the consideration of risk, controls and governance across the whole Council. This consideration can only be enhanced, and made more valuable, by following a comprehensive development programme.

1.6 Risk Management

1.6.1 A lack of adequate Member Development has previously been identified as a risk and incorporated within the Annual Governance Statement. This programme proposed is part of the mitigating actions to limit the likelihood and impact of that risk materialising.

1.7 Other Implications

1.7.1 None directly

- 1. Financial
- 2. Staffing
- 3. Legal
- 4. Equality Impact Needs Assessment
- 5. Environmental/Sustainable Development
- 6. Community Safety

- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management

Relevant Documents

1.7.2 Appendices

1.7.2.1 Member Development Programme Proposal

1.7.3 Background Documents

1.8.2.1 None

IS THIS A KEY DECISION REPORT?

THIS BOX MUST BE COMPLETED

Yes

☐

No

☒

If yes, this is a Key Decision because:

.....

Wards/Parishes affected:

.....

APPENDIX - MEMBER DEVELOPMENT PROGRAMME PROPOSAL

The Programme set out below takes its lead from the Committee terms of reference and seeks to provide comprehensive coverage of both those terms and the wider expectations of an Audit Committee as described by CIPFA. The Programme has been developed by Audit, in consultation with Finance, Democratic Services and Policy & Communications leads.

For each of the ten overall themes there are a number of specific topics that might be addressed in a development session, the list provided being only indicative. We encourage Members to consider with care precisely where their needs lay to enable creation of training materials that can fulfil those needs.

While the programme is aimed at the needs of Audit Committee members, of course all Members have a role to play in ensuring the effective governance of the authority. Consequently we would be very happy to invite all interested Members to attend any and all development sessions. Our intention is that development sessions will immediately precede meetings of the Audit Committee so as to minimise the need for Members to make separate attendance, but would be happy to discuss variation on that aim as may suit Member requirements.

Each session would be based around a presentation delivered by an appropriately qualified and experienced individual, who may be an officer of the Council (for example the Head of Audit Partnership) or where budget allows and there is identified need, an external training provider.

The table below also includes a suggested timing where the topic will be of most relevance to the current work of the Committee. However, Members may wish to vary this in discussion depending on need.

Development Theme & Specific Topics	Ref to AC ToR	Ref to CIPFA AC Guide	Suggested Timing
Reviewing an audit plan <ul style="list-style-type: none">- Member roles in relation to internal audit- Ensuring effective internal audit- Performance measures in audit	Items 1, 9	Chap 4	January to March
Reviewing the Annual Governance Statement <ul style="list-style-type: none">- The AGS within the Council's governance- Specific topics within the AGS- Comparative review of AGS across local gov	Items 14, 15	Chap 4	June
Countering Fraud <ul style="list-style-type: none">- Whistleblowing- Investigative practice- Fraud risks and the Councils response- Governance polices	Items 11, 13, 15	Chap 4	Flexible

Development Theme & Specific Topics	Ref to AC ToR	Ref to CIPFA AC Guide	Suggested Timing
Strategic Risk Management <ul style="list-style-type: none"> - Risk appetite - Specific strategic and operational risks - Risk management strategy - Local government risk outlook 	Items 12, 15	Chap 4	Flexible
Role of internal and external audit <ul style="list-style-type: none"> - Differences in internal/external audit role - Assuring effective external audit - External auditor appointment 	Items 1-8	Chap 4	January to March
Understanding local authority accounts <ul style="list-style-type: none"> - General understanding of accounts - Specific update/annual issues - Comparative review of LG accounts 	Items 5, 17, 18	Chap 4	June to September
Assurance across partnerships <ul style="list-style-type: none"> - Governance challenges in partnership working - Review on specific partnerships 	Items 10, 15, 16	Chaps 4 and 6	Flexible
Commissioning, procurement and contracting <ul style="list-style-type: none"> - Risks in commissioning &c - Effective procurement processes 	Item 12	Chaps 4 and 5	Flexible
Assurance on value for money <ul style="list-style-type: none"> - How external audit assess VfM conclusion - Measuring value for money in local government - Data quality and performance measurement 	Items 17, 18	Chap 4	Flexible
Internal Audit Standards <ul style="list-style-type: none"> - How standards are set and monitored - Specific work on IA conformance 	Items 1, 2	Chap 4	October to December

PUTTING THE PROGRAMME INTO PRACTICE

As discussed above, we would encourage Members to undertake their own assessment of development needs and make requests of officers to prepare specific, tailored, development sessions to address those needs. With that in mind, our recommendation is that Members should seek to keep the plan under review and have sessions planned at least two meetings in advance. With that in mind, we propose the following be added on a continuing basis to the Committee's work programme:

Meeting Date	Development Session	Issue for Decision
January 2015	As per this proposal	Select development theme and/or specific area to be delivered ahead of meeting in June 2015
March 2015	As per this proposal	Select development theme and/or specific area to be delivered ahead of meeting in September 2015
June 2015	Area selected in January 2015	Select development theme and/or specific area to be delivered ahead of meeting in November 2015
September 2015	Area selected in March 2015	Select development theme and/or specific area to be delivered ahead of meeting in January 2016
November 2015	Area selected in June 2015	Select development theme and/or specific area to be delivered ahead of meeting in March 2016 Annual review of overall programme.

We would intend for this cycle to continue, with an annual review of the themes and development needs to ensure they remain current and no areas have been unduly neglected.

SUGGESTED DEVELOPMENT THEMES FOR EARLY 2015

In order to set off the process, we suggest below two areas to address in early 2015 with the intention that thereafter Members select areas of interest as outlined above.

Meeting	Theme and Topics	Reason for Selection
January 2015	Strategic Risk Management - Risk appetite - Risk Management Strategy	To prepare Members for new Risk Management Policy and Strategic Risk Register refresh later in 2015
March 2015	Countering Fraud - Fraud risks and the Council's response	To inform Members of development in the Council's counter fraud approach following on from new CIPFA Code issued late 2014

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 24 NOVEMBER 2014

REPORT OF DIRECTOR OF REGENERATION & COMMUNITIES

Report prepared by John Owen

1. TREASURY MANAGEMENT STRATEGY MIDYEAR PERFORMANCE 2014-15

1.1 Issue for Decision

- 1.1.1 This report sets out the activities of the Treasury Management function for the 2014-15 financial year in accordance with CIPFA's Code of Practice (The Code). The Code suggests that members should be informed of Treasury Management activities at least twice a year.

1.2 Recommendation of Director of Regeneration & Communities

- 1.2.1 That the Audit Committee notes the position as at 30 September 2014, as detailed within this report.
- 1.2.2 That the Audit Committee agrees no amendments to the current procedures are necessary as a result of the review of activities in 2014-15 to date.

1.3 Reasons for Recommendation

- 1.3.1 The Council has adopted The Code as part of its Treasury Management Strategy and this has been incorporated into the financial regulations of the Council. The Code specifies the principles and guidelines relating to borrowing and investment activity.
- 1.3.2 In March 2014, the Treasury Management Strategy for 2014-15 was approved by full Council. The strategy requires members to be kept informed of Treasury Management activities through a mid-year review and an annual report, as well as a quarterly update within the budget monitoring report.
- 1.3.3 The Strategy for 2014-15 incorporated the following changes from the previous year's strategy:-

- a) Increasing the maximum duration limits with some part-nationalised groups to 2 years from 1 year;
- b) Investing up to £5m of core cash for over 1 year if rates were to improve with the possibility of using property funds as financial instruments to secure more favourable returns;
- c) Considering the use of core cash during for internal borrowing if not used for longer term investments;

1.4 2013-14 Overview

1.4.1 Economic Overview

The following trends have been observed during the first six months of 2014-15:-

- a) Continued growth in the UK economy of 0.7% in quarter one and 0.9% in quarter two (annual rate of 3.2% in quarter two). This is mainly attributable to consumer spending and increased activity in the housing market;
- b) A reduction in CPI, which reached 1.5% in May and July, the lowest rate since 2009;
- c) Continued decrease in unemployment, which is expected to give rise to future pay increases.

1.5 Interest Rate Forecast

1.5.1 The Council's treasury advisors, Capita Asset Services, have provided the following forecast:

	NOW	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
BANK RATE	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	2.00	2.25	2.50
3 month LIBID	0.50	0.50	0.60	0.80	0.90	1.10	1.30	1.40	1.60	1.90	2.10	2.10	2.30	2.40	2.60
6 month LIBID	0.65	0.70	0.80	1.00	1.10	1.20	1.40	1.50	1.80	2.00	2.20	2.30	2.50	2.70	2.80
12 month LIBID	0.93	0.90	1.00	1.20	1.30	1.40	1.70	1.80	2.10	2.20	2.30	2.40	2.60	2.80	3.00
5 yr PWLB	2.40	2.50	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.50	3.50	3.50
10 yr PWLB	3.00	3.20	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.10	4.10	4.20	4.20	4.30	4.30
25 yr PWLB	3.70	3.90	4.00	4.10	4.30	4.40	4.50	4.60	4.70	4.70	4.80	4.80	4.90	4.90	5.00
50 yr PWLB	3.70	3.90	4.00	4.10	4.30	4.40	4.50	4.60	4.70	4.70	4.80	4.80	4.90	4.90	5.00

1.5.2 It was previously predicted that interest rates would increase either in the latter part of 2014 or the beginning of 2015.

1.5.3 Capita subsequently revised this forecast to an initial increase in the Bank Rate during the second quarter of 2015 with a gradual rise thereafter. This followed an expression of caution by the Monetary Policy Committee over increasing the Bank Rate too early, given the potential impact that this could have on UK growth in the context of recent worldwide events including the ongoing conflict in Syria/Iraq, Ebola and the international threat of terrorism.

1.6 MBC Overview

1.6.1 With reference to the above strategy, £3m core cash was invested with Lloyds Bank (part nationalised) for two years at a rate of 1.3% on 22 July 2014. (See **Appendix A**).

1.6.2 With the exception of the above, all other cash has been invested short term. This is due to existing rates not being sufficient to justify the increased risk of fixing longer term.

1.6.3 At 30 September 2014, the council held investments totalling £29.83m, as listed within **Appendix A**. Income generated on these investments to 30 September is £101k against a budget of £125k. The adverse variance is a result of interest rates not increasing as expected, which is due the Bank Rate remaining static at 0.5%, as previously noted in paragraph 1.5.2. The average rate of return on investments over this period is 0.69%.

1.6.4 The Council is a member of the Capita Assets Services Local Authority Benchmarking Group alongside seven other authorities in Kent and Sussex. The benchmarking exercise compares the council's investment performance on a number of factors, taking into account the weighted average rate of return and the level of risk each authority is prepared to take. The analysis report as at 30 September 2014 shows that this Council is outperforming in its weighted average rate of return against a very low level of risk. At September 2014, Maidstone's portfolio yielded the third highest rate of return and was assigned second lowest risk profile in the group.

1.7 Treasury Management Strategy Statement and Annual Investment Strategy

1.7.1 The Treasury Management Strategy for 2014-15 was approved by Council in March 2014. The Council's Annual Investment Strategy, which is incorporated within the Council's Strategy outlines the council's investment priorities in the following order:

- Security of Capital
- Liquidity
- Yield

1.7.2 The Council will aim to achieve optimum return on investments only after satisfying proper levels of security and liquidity. It was agreed to keep investments short term with highly credit rated financial institutions, using the credit worthiness list and information provided by Capita Asset Services as well as being mindful of market intelligence.

1.7.3 There have not been any policy changes to the strategy since it was approved in March 2014 and the details within this report update the position in the light of the updated economic position and budgetary changes already approved.

1.7.4 The treasury management strategy for 2015-16 will be considered by the Audit Committee in January 2015. As part of this process, consideration will be given to the council's approach to optimising investment performance in line with the priorities listed in paragraph 1.7.1.

1.8 Borrowing

1.8.1 The Treasury Management Strategy includes a provision for borrowing of up to £6m for investment purposes. It has not been necessary to utilise the facility during the six months to 30 September 2014.

1.8.2 Short term borrowing of £1.5m was necessary during the week from 20 June 2014 to 27 June 2014 to cover a cash flow shortfall in the current account over this period. Funds were borrowed from another local authority at a rate of 0.25%, with total interest payments amounting to £71.92.

1.9 Prudential Indicators

1.9.1 The Council has a statutory duty to determine and monitor its affordable borrowing limits. These are detailed within **Appendix B**.

1.10 Cash Management

1.10.1 The major element of the Council's Treasury Management Function is the management on a daily basis of the cash requirements of the Council. The policy objectives are listed below:-

- a) The daily credit balance on the council's current account should be minimised, subject to clearance of monies overnight;
- b) Interest earned on investments should be maximised, subject to **security** of funds being paramount;

- c) Interest paid on borrowing should be minimised;
- d) Adequate funds should be available to meet precept payments and other payments as they fall due;
- e) Cash management activities should be carried out in accordance with the agreed Treasury Management Strategy.

1.11 Alternative Action and why not Recommended

1.11.1 No alternative action is proposed relating to the historic activity covered in this report.

1.12 Impact on Corporate Objectives

1.12.1 The Treasury Management Strategy will impact upon all corporate objectives through the resource it provides from the investment of all the Council's balances. These resources are incorporated in the Council's budget.

1.13 Risk Management

1.13.1 Risk management is included within the Treasury Management Practices which the Council adheres to. The main risks to the Council being counterparty risk, liquidity risk and interest rate risk which are closely monitored on a regular basis using the Council's Treasury advisors, Capita Asset Management and other market intelligence. If there is a possibility of a negative risk, the appropriate action is taken.

1.14 Other Implications

1. Financial	X
2. Staffing	
3. Legal	X
4. Equality Impact Needs Assessment	
5. Environmental/Sustainable Development	
6. Community Safety	
7. Human Rights Act	
8. Procurement	
9. Asset Management	

☐

1.14.2 Appendices

Appendix A – List of Investments
Appendix B – Prudential Indicators

1.14.3 Background Documents

None

<u>IS THIS A KEY DECISION REPORT?</u>		<u>THIS BOX MUST BE COMPLETED</u>	
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, this is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			

MAIDSTONE BOROUGH COUNCIL
INVESTMENTS AS AT 30 SEPTEMBER 2014

Type of Investment/Deposit	Counterparty	Issue Date	Maturity Date	£ Amount Invested	% Current Interest Rate	Credit Limits	
						£ Maximum Deposit	Suggested Term
Call account	Svenska Handelbanken			3,000,000	0.45	3,000,000	6mnths
Call account	Lloyds Bank			2,000,000	0.75	8,000,000	2yrs
Money Market Fund	Goldman Sachs			6,330,000	0.42	8,000,000	2yrs
Enhanced Money Market Fund	Ignis			8,000,000	0.77	8,000,000	2yrs
Enhanced Money Market Fund	Federated			2,500,000	0.56	8,000,000	2yrs
Fixed Term Deposit	Lloyds Bank	04/07/14	05/01/15	1,000,000	0.70	8,000,000	2yrs
Fixed Term Deposit	Skipton Building Society	28/07/14	28/01/15	1,000,000	0.64	2,000,000	6 Mnths
Fixed Term Deposit	Nationwide Building Society	07/08/14	09/02/15	1,000,000	0.64	3,000,000	6 Mnths
Fixed Term Deposit	Nationwide Building Society	16/09/14	16/03/15	2,000,000	0.65	3,000,000	6 Mnths
Fixed Term Deposit	Lloyds Bank	22/07/14	22/07/16	3,000,000	1.30	8,000,000	2yrs

29,830,000

PRUDENTIAL INDICATORS

Capital Expenditure

2013/14 Actual £,000	2014/15 Estimate £,000	2014/15 Actual £,000
2,095	7,233	706

This is the actual capital expenditure against the estimate for 2014/15

Capital Financing Requirement

2013/14 Actual £,000	2014/15 Estimate £,000	2014/15 Actual £,000
-10,678	-12,099	-9,972

This is a measure of the capital expenditure incurred historically by the council that has yet to be financed. As the capital financing requirement is a negative figure, it shows the Council has sufficient funds to cover its capital programme

Authorised Limit for External Debt

	2013/14 Actual £,000	2014/15 Estimate £,000	2014/15 Actual £,000
Borrowing	0	10,000	1,500
Other Long Term Liabilities	5,856	5,426	5,426
Total	5,856	15,426	6,926

This is the main limit which is set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003. Only short term borrowing was undertaken during this

Operational Limit for External Debt

	2013/14 Actual £,000	2014/15 Estimate £,000	2014/15 Actual £,000
Borrowing	0	6,000	1,500
Other Long Term Liabilities	5,856	5,426	5,426
Total	5,856	11,426	6,926

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing as perceived as not necessary on a day to day basis

Principal Invested for more than 364 Days

2013/14 Actual £,000	2014/15 Estimate £,000	2014/15 Actual £,000
3,000	5,000	3,000

This indicator shows the council has not breached the limit agreed by Council within its Treasury Management Strategy 2014/15

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 24 NOVEMBER 2014

REPORT OF HEAD OF FINANCE AND RESOURCES

Report prepared by Ellie Dunnet

1. EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER

1.1 Issue for Consideration

- 1.1.1 To consider the External Auditor's Annual Audit Letter for the year ended 31 March 2014.

1.2 Recommendation of Head of Finance and Resources

- 1.2.1 It is recommended that the committee note and comment on the External Auditor's Annual Audit Letter included at Appendix A to this report and consider whether any recommendations should be made to Cabinet.

Reasons for Recommendation

- 1.2.2 The Annual Audit Letter summarises the main findings from the work undertaken by the external auditor for the year ended 31 March 2014. Representatives from Grant Thornton will in attendance at the meeting to present their report.
- 1.2.3 It is recommended that this document is considered by the Audit Committee in accordance with the terms of reference detailed within Article 6A to the council's Constitution.

1.3 Alternative Action and why not Recommended

- 1.3.1 The Audit Committee, and the Council, could choose not to acknowledge the comments made by the External Auditor, but this is an independent view of how the authority is operating. It offers stakeholders an opportunity to gain a view of how the Council is performing in a range of areas including value for money.

1.4 Impact on Corporate Objectives

- 1.4.1 The Council is committed to delivering on its priorities and securing value for money. This letter is one measure of how successful that commitment is.

1.5 Risk Management

- 1.5.1 Risk Management forms a key part of the corporate governance arrangements which are assessed as part of the annual audit and are commented on in this letter.

1.6 Other Implications

1.6.1

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety
7. Human Rights Act
8. Procurement
9. Asset Management

x

- 1.6.2 The financial implications arising from the work of external audit are detailed within Appendix A.

1.7 Relevant Documents

1.7.1 Appendices

Appendix A – External Auditor’s Annual Audit Letter 2013-14

1.7.2 Background Documents

None.

<u>IS THIS A KEY DECISION REPORT?</u>		<u>THIS BOX MUST BE COMPLETED</u>	
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, this is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			

The Annual Audit Letter for Maidstone Borough Council

Year ended 31 March 2014

October 2014



Darren Wells

Director

T 01293 554120

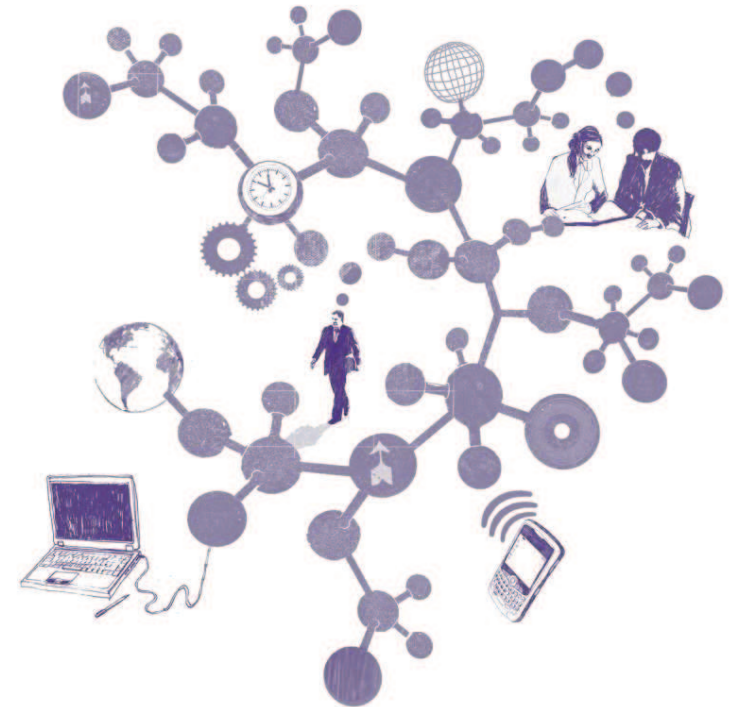
E darren.j.wells@uk.gt.com

Keith Hosea

Manager

T 020 7728 3231

E keith.j.hosea@uk.gt.com



Contents

Section	Page
1. Key messages	3
Appendices	
A Key issues and recommendations	5
B Summary of reports and audit fees	6



Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Maidstone Borough Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 14 July 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

<div>Financial statements audit (including audit opinion)</div> <div>34</div>	<div>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 15 September 2014 to the Audit Committee. The key messages reported were:</div> <div><ul style="list-style-type: none">• The statements were of a generally good standard and supported by reasonable working papers.• We found 3 adjustments affecting the Council's reported financial position, none of which affected the general fund balance at year-end. We identified a number of improvements to the presentation of the financial statements.• The Council has addressed the issue we reported last year around balances relating to the collection fund although we made a recommendation around the process for reconciling revenues systems to the general ledger.</div> <div>We issued an unqualified opinion on the Council's 2013/14 financial statements on 23 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</div>
---	---

Key messages

Value for Money (VfM) conclusion 35	<p>We issued an unqualified VfM conclusion for 2013/14 on 23 September 2014. The key messages reported were:</p> <ul style="list-style-type: none">• The Council has continued to achieve a good financial outturn and has satisfactory arrangements in place to ensure financial resilience and deliver value for money.• The Council proposes to reduce its useable reserves over the term of its medium term financial strategy. We recommended that the Council carefully consider whether the proposed reduction would provide sufficient resilience and flexibility to deal with financial shocks and fund future projects. <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</p>
Whole of Government Accounts	<p>As the Council falls below the threshold set by the National Audit Office, we are only required to carry out limited work on the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We confirmed on 23 September 2014 that a review was not required and that the balances of property, plant and equipment and pension liabilities in the pack were consistent with the audited financial statements.</p>
Certification of grant claims and returns	<p>We are carrying out certification work on your housing benefit subsidy claim and will report our findings from this work separately in our annual certification report. No other claims or returns are subject to certification this year.</p>
Audit fee	<p>Our fee for 2013/14, subject to any changes arising from on-going certification work, was £82,524, excluding VAT which represents a reduction to our planned fee for the year and also represented a reduction of 6% from the previous year. Further detail is included within appendix B.</p>

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible officer/ due date
1.	<p>We confirmed that the Council had addressed the issues we found in respect of collection fund balances in 2012/13. However, the process for reconciling cash between the council tax and non-domestic rates systems and general ledger should be formalised.</p> <p>Recommendation: Formalise the process of reconciling cash between the ledger and council tax and business rates systems.</p>	Medium	<p>The Council has a process in place for reconciling cash transactions between the general ledger and revenues system both throughout the year and at year end. This process will be reviewed to ensure that discrepancies are identified and resolved in time for the production of the 2014-15 financial statements.</p> <p>Responsible officer: Ellie Dunnet, Chief Accountant Due date: March 2015</p>
2.	<p>The budget strategy plans to reduce usable reserves to about £5m, which would be a lower percentage of gross cost of services than most similar councils</p> <p>Recommendation: Consider carefully whether the proposed reduction in usable reserves would provide sufficient financial resilience to fund projects and absorb future financial shocks. Benchmarking of reserve levels against other similar councils would provide a useful contribution to this discussion.</p>	High	<p>The benchmarked data has been referred to the member budget working group and will be considered by the Strategic Leadership and Corporate Services Overview and Scrutiny Committee in setting the medium term financial strategy for 2015-16 onwards.</p> <p>Responsible officer: Paul Riley, Head of Finance and Resources Due date: December 2014</p>

Appendix B: Reports issued and fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual 2013/14 fees (tbc) £	2012/13 fees £
Audit Fee	66,400	* 67,300	69,919
Grant certification fee	17,300	** 15,224	17,600
Total fees	83,700	82,524	87,519

Fees for other services

Service	Fees £
None	Nil

* There is an additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is subject to agreement by the Audit Commission.

** The Audit Commission updated its scale fee for certification work to reflect the removal of the need to test council tax benefit claims as part of work on Housing Benefits subsidy claim. We will report the final fee later in the year in our annual certification report.

Reports issued

Report	Date issued
Audit Plan	15 July 2014
Audit Findings Report	15 September 2014
Certification report	TBC
Annual Audit Letter	October 2014



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 24 NOVEMBER 2014

REPORT OF DIRECTOR OF REGENERATION AND COMMUNITIES

Report prepared by Ellie Dunnet

1. AUDIT COMMITTEE UPDATE - NOVEMBER 2014

1.1 Issue for Decision

- 1.1.1 To consider the report of the External Auditor on the proposed audit programme for 2014-15. Representatives from Grant Thornton will be present at the meeting to present their report and answer any questions.

1.2 Recommendation of the Director of Regeneration and Communities

- 1.2.1 It is recommended that the Audit Committee notes the External Auditor's update report attached at **Appendix A**.

1.3 Reasons for Recommendation

- 1.3.1 External audit services are provided by Grant Thornton who successfully tendered for the five year contract from 2012-13 following the abolition of the Audit Commission's audit practice.
- 1.3.2 This report provides an overview of the planned programme of work for 2014-15 and updates the Audit Committee on a number of relevant emerging issues and developments.
- 1.3.3 Members have previously commented that they have found this type of report to be useful.
- 1.3.4 Representatives from Grant Thornton will be present at the meeting to present the report and answer any questions.

1.4 Alternative Action and why not Recommended

- 1.4.1 Given the respective responsibilities of both the External Auditor and the Audit Committee, an update report of this nature is judged to be appropriate for consideration. To not consider the report could weaken the Audit Committee's capacity to discharge its responsibilities in relation to External Audit.

1.5 Impact on Corporate Objectives

- 1.5.1 The report is focused on ensuring that the Auditor's opinion on the 2014-15 financial statements is issued by the statutory deadline of 30 September 2015.

1.6 Risk Management

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

1.7 Other Implications

1.7.1

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety
7. Human Rights Act
8. Procurement
9. Asset Management

1.8 Relevant Documents

1.8.1 Appendices

Appendix A – Audit Committee Update November 2014

1.8.2 Background Documents

None

<u>IS THIS A KEY DECISION REPORT?</u>		<u>THIS BOX MUST BE COMPLETED</u>	
Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
If yes, this is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			

Audit Committee Update for Maidstone Borough Council

Year ended 31 March 2015

24 November 2014

42

Darren Wells

Director

T +44(0)1293 554 120

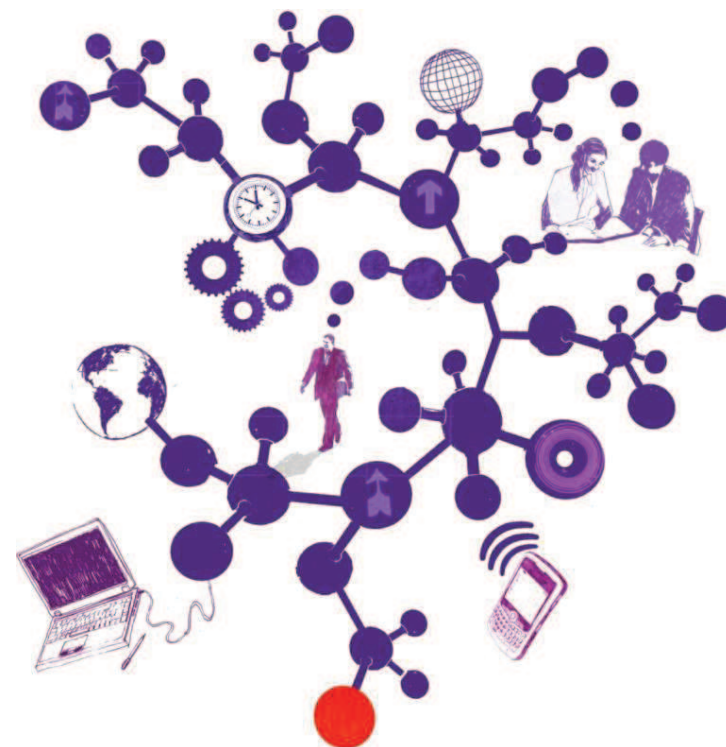
E Darren.J.Wells@uk.gt.com

Keith Hosea

Manager

T +44(0)20 7728 3231

E Keith.J.Hosea@uk.gt.com



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 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 your business or any 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.

Contents

Section	Page
Introduction	4
Progress at 12 November 2014	5
Emerging issues and developments	
Accounting and audit issues	7
Grant Thornton	9
Local government guidance	13

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- 45 • Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths
- Responding to the challenge – Alternative Delivery Models in Local Government

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

Progress at 12 November 2014

Work	Planned date	Complete?	Comments
2014-15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on your 2014-15 financial statements.	March 2015	N/A	
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing 	January 2015 March 2015	N/A	We will update our understanding of your control environment and systems in January, with a further visit in March to carry out some early testing of transaction streams.
2014 -15 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts 	July 2015	N/A	We will report the findings from our audit of your financial statements to the September meeting of this Committee.

Progress at 12 November 2014

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2014-15 VfM conclusion comprises: <ul style="list-style-type: none"> • Review of your arrangements to secure financial resilience in the foreseeable future; • Review of your arrangements to challenge how to secure value for money. 	March 2015 July 2015	N/A	We will carry out the bulk of our work in March based on your updated medium term financial strategy. We will consider any emerging issues in July whilst we undertake the audit of the financial statements.
2013/14 Certification of claims We are finishing work on your housing benefit subsidy return for 2013/14 and expect to certify this by the end of November. We will issue a report on the certification of claims and returns as required by the Audit Commission.	November 2014 December 2014	No No	The housing benefit subsidy return is the only claim we certify this year. Our report will be presented to the January meeting of this Committee.
2014/15 Certification of claims We expect that the housing benefit subsidy claim will be the only return we are required to certify next year.	June to July 2015	N/A	

Emerging issues and developments

Accounting and audit issues

Code changes

At the end of July, CIPFA/LASAAC released the [2015/16 Code of Practice on Local Authority Accounting in the United Kingdom](#) (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in remeasurement of property, plant and equipment assets that do not provide service potential for the authority. IFRS 13 also applies to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions) and will have an impact on the reporting of, for example, financial instruments and investment properties.
- Other amendments to IFRSs: including the accounting treatment of pensions' contributions
- IFRIC 21 Levies (ie levies imposed by governments)
- changes to UK GAAP particularly relating to Heritage Assets
- other minor and drafting amendments.

The consultation closed on Friday 10 October 2014.

CIPFA/LASAAC have also launched a second stage consultation on [simplifying and streamlining the presentation of local authority financial statements](#). This consultation closed on Friday 19 September 2014.

Challenge questions

- Has your Head of Finance and Resources reviewed the proposed amendments and assessed the potential impact?

CIPFA LAAP updates

Accounting and audit issues

CIPFA LAAP updates

CIPFA issued the following LAAP Bulletins in late July:

- [LAAP bulletin 99](#) Local Authority Reserves and Balances – provides guidance on the establishment and maintenance of local authority reserves and balances.
- [LAAP bulletin 100](#) Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17 – provides an outline project plan to help authorities looking to develop their own project plans for the implementation of the 2016/17 Code requirements for accounting for infrastructure assets.

Challenge questions

- Has your Head of Finance and Resources reviewed the guidance and assessed the potential impact for your authority?

2020 Vision

Grant Thornton

Our national report '2020 Vision' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Pulling together the Better Care Fund

Grant Thornton

Our national report 'Pulling together the Better Care Fund' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Pulling-together-the-Better-Care-Fund/>

Do local authorities and clinical commissioning groups (CCGs) have effective arrangements to develop joint Better Care Plans for agreement by the health and wellbeing boards (HWBs) and how ready are they for the pooled fund in April 2015?

Our report draws on our review of the introduction of draft Better Care Fund (BCF) plans for both the February and April submissions. It is based on a sample of our findings from 40 HWB localities. It considers the partnership arrangements across a HWB planning area and is supported by discussions with the sector, across the country. The result is a snap shot of progress as at 30 June 2014, prior to the issue of revised planning guidance by NHS England and the Local Government Association on 25 July 2014.

It provides you with:

- an understanding of how your approach to introducing BCF compares to others across the country
- assistance in identifying the key issues to delivering Better Care Fund plans effectively
- insight into current best practice
- practical areas for consideration for improving arrangements in the future.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Where Growth Happens

Grant Thornton

Our national report 'Where Growth Happens' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Where-growth-happens-The-high-growth-index-of-places/>

As the UK emerges from recession, increasing attention is being given, both nationally and locally, as to how to accelerate economic sector growth. Our report presents the findings of research undertaken by our Place Analytics team on the dynamics of local growth. It will give FDs and CEOs of local authorities and LEPs:

- an insight into the geographic areas of high growth and dynamic growth (i.e. the quality of growth)
- an understanding of the characteristics of both growing and dynamic places to help frame policy and sustain future growth
- an understanding of growth corridors and their implications, not only for UK policy makers, but also for those locally sitting within and outside the corridors
- an insight into the views of different leaders charged with making growth happen in their locality.

The report provides a ranking of English cities according to their economic growth over an eight year period (2004 – 2012). Outside of London – which maintains eight of the top 10 best performing districts overall – it places Manchester, Birmingham and Brighton and Hove in the top three, as measured by economic, demographic and place (dwelling stock and commercial floor space) growth.

The analysis also assess the quality of local growth - or 'dynamism' - to identify areas with a vibrant and dynamic economy capable of supporting future expansion, based on five key drivers. London again tops the ranking, with nine out of the top 10 dynamic growth areas. Outside the capital, Cambridge, Reading and Manchester top the list of future sustainable growth.

Based on this analysis of past progress and future prospects, our report reveals a number of 'growth corridors' – functional and large scale local economic areas in England – which are playing a significant role in the country's overall growth levels. Though predominantly stemming from London, the intra-city growth corridors include a number of other large cities at their core, creating a network of key strategic linkages between high growth and dynamic areas.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

New routes to housing development

Grant Thornton

We have issued the first in a series of good practice papers on topical issues for local government.

This paper considers good practice in councils' approaches to delivering affordable housing. Until recently, local authorities have acted as an enabler of new affordable housing; increasingly they are now undertaking a direct delivery role. Delivery routes vary and must be structured with the council's objectives and capacity in mind as there is no 'one size fits all' approach. The paper considers the benefits and challenges of council owned housing companies, including:

- Setting and delivering objectives
- Identifying optimal funding routes
- Assessing viability and working with others

The paper stresses the importance of a properly developed business case and business plan to support the setting up of a housing company.

Copies of our good practice paper are available from your engagement lead or audit manager.

Managing council property assets

Local government guidance

The Audit Commission has issued its briefing paper **Managing Council Property Assets: Using Data from the VFM Profiles**

In the paper the Audit Commission:

- advocates that councils should be active and strategic managers of their estates – understanding property markets and asking questions about the properties they own or lease,
- prompts councils to consider whether assets are in the right place, whether they should keep, sell, or transfer them, and how much they should invest in building, buying and maintaining property,
- invites local authorities to balance the value realised through sales of surplus assets, against the cost of maintaining them.

The background to the briefing is the collation of information from the government's capital outturn return which identifies that the local government estate has a net book value of £169.8 billion of which £2.5 billion have been classified as 'surplus' assets. In this context the Audit Commission is calling on councils to ensure they have a strategic approach to managing these assets, in order to get the best value for money they can from this portion of the local government estate. The Audit Commission Chair, Jeremy Newman said:

"we are neither advocating that local government starts a wholesale sell-off of their land and property nor are we suggesting councils shouldn't spend money on buying assets or on investment to improve their existing property. What we are highlighting is a group of assets that do not provide immediate benefit to local communities, but still require councils to spend money on maintaining them. These assets have potential value for councils. While not all such land or buildings may be sellable, councils should consider how much value they gain from surplus assets and how this could be increased. I urge councils to use the data held in the Commission's 'Value for Money (VFM) Profiles Tool', such as spending on and value of land and property assets and 'surplus' assets, alongside their unique and detailed local knowledge, to regularly review if their estate is fit-for-purpose."

Challenge question

- Are members satisfied that the Council has adequate management arrangements in place to ensure its property assets are being efficiently and effectively managed?



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires.

Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

Work Programme

2014/15



Date of Meeting	Title of Report	Contact Officer
14 July 2014	Benefit Fraud Annual Report 2013/14	Filmer Wellard, Investigations Manager
14 July 2014	Internal Audit Annual Report 2013/14	Russell Heppleston, Audit Manager
14 July 2014	Audit Committee Annual Report 2013/14	Russell Heppleston, Audit Manager
14 July 2014	Internal Audit Process Refresh Report 2014/15	Rich Clarke, Head of Audit Partnership
14 July 2014	Treasury Management Performance 2013/14	Paul Riley, Head of Finance and Resources
14 July 2014	External Auditor's Audit Plan 2013/14	Paul Holland, Senior Accountant
14 July 2014	Audit Committee Progress Report July 2014	Paul Holland, Senior Accountant
14 July 2014	External Audit Fees 2014/15	Paul Holland, Senior Accountant
14 July 2014	Local Code of Corporate Governance - Update	Angela Woodhouse, Head of Policy and Communications
14 July 2014	Annual Governance Statement 2013/14	Angela Woodhouse, Head of Policy and Communications
14 July 2014	Statement of Accounts 2013/14	Paul Holland, Senior Accountant
15 September 2014	Internal Audit – Follow-Up Report Update	Rich Clarke, Head of Audit Partnership
15 September 2014	External Auditor's Audit Findings Report 2013/14 and Statement of Accounts 2013/14	Ellie Dunnet, Chief Accountant
15 September 2014	Irrecoverable Business Rates - Procedures	Stephen McGinnes, Head of Revenues and Benefits
24 November 2014	Annual Governance Statement Action Plan Update	Angela Woodhouse, Head of Policy and Communications
24 November 2014	Member Development Programme	Rich Clarke, Head of Audit Partnership

24 November 2014	Treasury Management Strategy Mid-Year Performance 2014/15, including Review of Rates of Return	Ellie Dunnet, Chief Accountant
24 November 2014	External Auditor's Annual Audit Letter 2013/14	Ellie Dunnet, Chief Accountant
24 November 2014	Audit Committee Update – November 2014	Ellie Dunnet, Chief Accountant
26 January 2015	Treasury Management Strategy 2015/16	Paul Riley, Head of Finance and Resources
26 January 2015	Review of Risk Assessment of Budget Strategy 2015/16 Onwards	Paul Riley, Head of Finance and Resources
26 January 2015	Internal Audit Interim Report	Russell Heppleston, Audit Manager
30 March 2015	Certification of Financial Claims and Returns	Stephen McGinnes, Head of Revenues and Benefits
30 March 2015	Internal Audit Operational Plan for 2015/16	Rich Clarke, Head of Audit Partnership
30 March 2015	Grant Thornton - Enquiries of Management and Audit Committee As Those Charged With Governance	Paul Riley, Head of Finance and Resources
TBA	Review of Financial Thresholds in the Contract Procedure Rules	Paul Riley, Head of Finance and Resources
TBA	Review of Corporate Policies	Rich Clarke, Head of Audit Partnership
TBA	Strategic Risk Register – Action Plans	Rich Clarke, Head of Audit Partnership
TBA	HR Assessment of Benefits of IIP Accreditation	Paul Riley, Head of Finance and Resources