AGENDA

AUDIT COMMITTEE MEETING

Date: Monday 24 March 2014
Time: 6.30 pm
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Black, Butler, Daley, Nelson-Gracie (Chairman) and Warner

		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 10 February 2014	1 - 3

Continued Over/:

Issued on 14 March 2014

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

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 10 FEBRUARY 2014

Present: Councillor Nelson-Gracie (Chairman), and
Councillors Black, Butler, Daley and Vizzard

75.   APOLOGIES FOR ABSENCE

It was noted that an apology for absence had been received from
Councillor Warner.

76.   NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Vizzard was substituting for Councillor
Warner.

77.   NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

78.   DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

79.   DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

80.   EXEMPT ITEMS

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

81.   MINUTES OF THE MEETING HELD ON 25 NOVEMBER 2013

RESOLVED: That the Minutes of the Meeting held on 25 November 2013
be approved as a correct record and signed.

82.   MATTERS ARISING FROM THE MINUTES

Minute 68 – Annual Governance Statement Action Plan Update

The Head of Audit Partnership, following a request, informed members
that:

- the updated guidance for Audit Committees from CIPFA had been circulated to Members of the Committee via email and a report will be brought to a future meeting of the Committee
- The Scrutiny Co-Ordinating Committee were having a further meeting on 25 February 2014 and a report will be brought to the March meeting of this Committee

83. RECONCILIATION OF THE COLLECTION FUND 2012/13

The Committee considered the report of the Director of Regeneration and Communities regarding an update on the reconciliation of the financial management system to the council tax and business rates system, requested by the Committee at its last meeting.

In response to questions, the Head of Finance and Resources informed Members that:-

- No penalties could be awarded as a result of the non-payment as the system was closed by the Government;
- He is meeting with the Auditor this week to ensure they are happy with the proposed arrangements

RESOLVED: That the report be noted.

84. TREASURY MANAGEMENT STRATEGY 2014/15

The Committee considered the report of the Director of Regeneration and Communities regarding the draft Treasury Management Strategy for 2014/15, including the Treasury and Prudential Indicators.

The Head of Finance and Resources explained that the recommended changes to be proposed were:-

- Increasing the maximum duration limits with some part-nationalised groups to 2 years from 1 year;
- Invest up to £m of ore cash for over 1 year if rates were to improve, maybe using property funds; and
- Consider the use of core cash during 2014/15 for internal borrowing if not used for longer term investments;

Members asked questions of the Head of Finance and Resources regarding, inter alia, investing through Kent County Council, how interest is paid, rates of interest, the type of investments.

RESOLVED: That the Cabinet be recommended to agree the draft Treasury Management Strategy for 2014/15, as set out in the report of the Director for Regeneration and Communities, for submission to the Council.

85.   BUDGET STRATEGY 2014-15 ONWARDS - RISK ASSESSMENT

The Committee considered the report of the Director of Regeneration and Communities regarding the risk analysis of the Finance Section's service plan in respect of the Budget Strategy 2014/15 onwards.

The Head of Finance and Resources explained each of the risks set out in Appendix D to the Committee.

The Committee asked a number of questions of the Officers in relation to:

- The risk related to out of town business centres;
- Projected outturns;
- Zero based budgeting;
- New homes bonus; and
- Collection fund

RESOLVED: That the Cabinet be recommended to agree, without amendment, the risk assessment of the budget strategy for 2014/15 onwards as set out in Appendix D to the report of the Director for Regeneration and Communities.

86.   DURATION OF MEETING

6.30 p.m. to 7.45 p.m.

<u>**MAIDSTONE BOROUGH COUNCIL**</u>

<u>**AUDIT COMMITTEE**</u>

<u>**MONDAY 24 MARCH 2014**</u>

<u>**REPORT OF DIRECTOR OF REGENERATION AND COMMUNITIES**</u>

Report prepared by Stephen McGinnes

1.   <u>**CERTIFICATION OF FINANCIAL CLAIMS AND RETURNS**</u>

1.1   <u>Issue for Consideration</u>

1.1.1 To consider the outcome of the Grant Thornton work to certify the grant and subsidy claims that the Council submitted during 2012/13.

1.2   <u>Recommendation of Head of Revenues and Benefits</u>

1.2.1 That the Committee notes the Grant Thornton assurance that the Council maintains a strong control environment for the preparation and monitoring of grant claims and returns.

1.3   <u>Reasons for Recommendation</u>

1.3.1 Grant Thornton undertook work to certify the two primary grant claims that are submitted by the Council with a combined value of £110,200,000.

     • Housing and council tax benefit scheme;
     • National non-domestic rates;

1.3.2 The level and form of testing varied between claims to reflect the value and specific requirements of the grant paying body, as detailed within Appendix A.

1.3.3 Whilst the work gave rise to minor amendment the overall assurance confirmed that the Council continues to have good systems in place to ensure the accuracy of its' grant claims and returns.

1.4   <u>Alternative Action and why not Recommended</u>

1.4.1 The report is provided for information only.

1.5 Impact on Corporate Objectives

1.5.1 The report supports the objective of providing corporate and customer excellence**.**

1.6 Risk Management

1.6.1 The accuracy of the grant claims represents a key financial risk, with the work undertaken by Grant Thornton in part aimed at mitigating that risk.

1.7 Other Implications

1.7.1

	x
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	

1.7.2 The financial considerations have been outlined within the body of the report and attached appendices.

1.8 Relevant Documents

Appendices

Appendix A: Certification of claims and returns – annual report.

1.9 Background Documents

None

IS THIS A KEY DECISION REPORT?   **THIS BOX MUST BE COMPLETED**

Yes ☐   No [X]

If yes, this is a Key Decision because: …………………………………………………………..

……………………………………………………………………………………………………….

Wards/Parishes affected: …………………………………………………………………………..

………………………………………………………………………………………………………..

Grant Thornton

Certification report 2012/13 for Maidstone Borough Council

Year ended 31 March 2013

February 2014

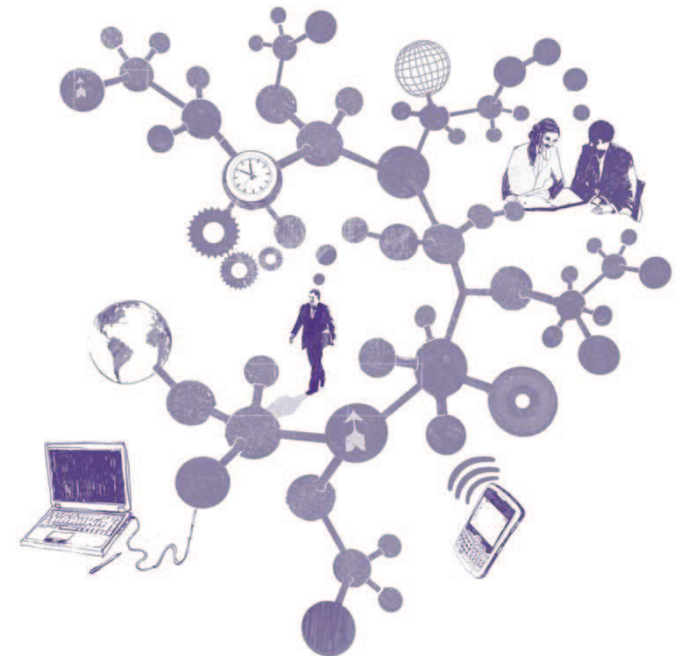**Darren Wells**
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Contents

8

Executive summary

Introduction

We are required to certify certain claims and returns submitted by Maidstone Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified 2 claims and returns for the financial year 2012/13 relating to expenditure of £110.2 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan issued to the Council in August 2013

Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	RAG rating
Submission & certification	🟢
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	🟡
Supporting working papers	🟢

Results of our certification work

Key messages

Submission & certification

We have certified 2 claims and returns for the financial year 2012/13 relating to expenditure of £110.2 million.

The Council's performance in preparing claims and returns is summarised below:

- The NNDR3 return was certified without amendment or qualification.
- The Housing and Council Tax Benefit Subsidy claim was certified with amendments and a qualification letter to report underpayments of benefit identified on the claim.
- Both claims were submitted on time by the Council and certified on time by us.

This analysis of performance shows that the Council's performance is broadly consistent with last year, although we identified fewer errors than in last year's housing benefits subsidy claim.

Details of the certification of both claims and returns are included at Appendix A.

Accuracy of claim forms submitted to the auditor

Our work has identified the following issues in relation to the management arrangements and certification of individual grant claims and returns:

- we identified two cases where benefit had been underpaid due to using an incorrect rent charge in calculating benefits due to housing association tenants. We reviewed all similar cases and found these to be the only two cases affected. We reported this in the qualification letter to the Department.

- we identified one case where the Council had incorrectly applied changes to the claimant's hours and earnings which resulted in underpaid benefit for a short period. Further work undertaken in this area determined that this was an isolated error.

- £2,619 of expenditure was incorrectly classified. The amendment agreed resulted in a net reduction in subsidy claimable of £1.

We have made recommendations for improvement in the action plan at Appendix B.

Supporting working papers

Working papers provided were of a satisfactory standard and officers answered our queries on a timely basis.

Certification fees

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 is £17,600.

We have agreed variations to the analysis of fees between the two claims to reflect that:

- more work was required on the NNDR claim as the Audit Commission requires us to carry out more extensive 'Part B' testing at least one year in three. This was not reflected in the indicative scale fee.

- less work was required on the housing benefits subsidy claim this year as the volume of errors was lower and could be better isolated to specific circumstances than in 2010/11, on which the Audit Commission based its indicative scale fee.

The net effect of the upward and downward variations is nil. More detail on the fees for certification work can be found in Appendix C.

The way forward

We set out recommendations to address the key messages above and other findings arising from our certification work at Appendix B.

Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

Acknowledgements

We would like to take this opportunity to thank officers for their assistance and co-operation during the certification process.

Grant Thornton UK LLP
February 2014

11

Appendices

12

Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing and council tax benefit scheme	£55,790k	Yes	-£1	Yes	Claim qualified to reflect: • two cases where benefit had been underpaid due to using an incorrect rent charge in calculating benefits due to housing association tenants. We reviewed all similar cases and found these to be the only two cases affected. • we identified one case where the Council had incorrectly applied changes to the claimant's hours and earnings which resulted in underpaid benefit for a short period. Further work undertaken in this area determined that this was an isolated error. • Claim amended to reflect misclassification of £2,619 of expenditure.
National non-domestic rates return	£54,361k	No	N/A	No	N/A

13

Appendix B: Action plan

Priority
High - Significant effect on arrangements
Medium – Some effect on arrangements
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Ensure correct rent charges are identified and used in calculating benefit for housing association tenants.	Medium	Agreed	Head of Revenues and Benefits March 2014
2	Ensure that all benefits expenditure is correctly classified on the claim form following the instructions for completion.	Medium	Agreed	Head of Revenues and Benefits March 2014

14

Appendix C: Fees

Claim or return	2011/12 fee (£) (N1)	2012/13 indicative fee (£)	2012/13 actual fee (£)	Variance year on year (£)	Explanation for significant variances
Housing benefits subsidy claim	17,031	17,330	15,809	-1,222	Fewer errors were identified compared to the previous year, and where errors were identified, it was possible to restrict the population to a smaller number of cases. This resulted in less additional work required to test the whole population affected and quantify results.
National non-domestic rates return	294	270	1,791	1,497	The Audit Commission requires us to carry out more detailed 'Part B' testing at least every third year. We had not carried this out in the previous two years and had to do so in 2012/13.
Total	**17,325**	**17,600**	**17,600**	**275**	

(**N1**) 2011/12 fee less 40% fee reduction applicable for 2012/13 onwards. This is shown in this way to make it comparable to the 2012/13 fee.

15

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MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

25 MARCH 2014

REPORT OF HEAD OF FINANCE & RESOURCES

Report prepared by Paul Holland
Senior Accountant (Client)

1. **EXTERNAL AUDITOR'S ENQUIRIES OF MANAGEMENT AND AUDIT COMMITTEE AS THOSE CHARGED WITH GOVERNANCE**

1.1   Issue for Decision

1.1.1   To consider the draft responses from the Head of Finance & Resources and the Chairman of Audit Committee to the external auditor's enquiries.

1.2   Recommendation of Head of Finance & Customer Services

1.2.1   That the Committee note the contents of the draft responses.

1.3   Reasons for

1.3.1   To comply with International Auditing Standards the external auditor needs to establish an understanding of the management processes in place to detect fraud and to ensure compliance with law and regulation. The external auditor is also required to make enquiries of management as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements.

1.3.2   The external auditor also needs to gain an understanding of how the Audit Committee maintains oversight of the above processes.

1.3.3   At this stage these are still draft responses as it is not yet the end of the financial year. There will be formal responses made in due course once it is confirmed that no new issues or changes in circumstances have arisen.

1.3.4   The draft response from the Head of Finance & Resources is shown at **Appendix A** and the draft response from the Chairman of Audit

Committee is shown at **Appendix B**.

1.4 <u>Alternative Action and why not Recommended</u>

1.4.1 The requirement to approve the Statement of Accounts is a statutory requirement and therefore no alternative action is recommended as the Committee needs to be assured that the information submitted to the External Auditor is sufficiently robust for their purposes.

1.5 <u>Impact on Corporate Objectives</u>

1.5.1 None.

1.6 <u>Risk Management</u>

1.6.1 Failure to achieve an unqualified Audit Opinion represents a reputational risk to the Council, therefore the Committee needs to seek assurances from officers that the information in key financial systems is adequate for the purposes of the Statement of Accounts.

1.7 <u>Other Implications</u>

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	

<u>Relevant Documents</u>

1.7.2 Appendix A – Draft Response of the Head of Finance & Resources

1.7.3 Appendix B - Draft Response of the Chairman of Audit Committee

1.8   Background Documents

1.8.1 None.

IS THIS A KEY DECISION REPORT?

Yes   ☐   No   ☒ X

If yes, when did it first appear in the Forward Plan?

……..

This is a Key Decision because: ………………………………………………………………………..

……….

Wards/Parishes affected: ……………………………………………………………………………………..

……..

Appendix A - Responses from Management:

Auditor question	Response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2013/14?	2013/14 is the first year of the Business Rates Retention scheme; there are key issues around the provision for backdated appeals and changes to Collection fund accounting.
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 in accounting policies for 2013/14.
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 internal control processes?	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 governance framework governance, risk management and control. The most recent report to the Audit Committee on 15 July 2013 contained the Head of Audit Partnership's opinion that substantial reliance can be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
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.

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 and all payments greater than £40,000. A dedicated fraud team is in place to identify and respond to fraud relating to Benefits and Council Tax fraud.
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. The dedicated fraud team has identified and investigated a considerable number of Benefit fraud and improper applications for Council Tax Single Person Discount.
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 governance?	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 identify and respond to fraud. Strategic Risk Register in place. 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?	
Is there any use of financial instruments, including derivatives?	No.
Are you aware of any significant transaction outside the normal course of business?	No.

Auditor question	Response
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.
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No.
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?	None have been identified.
Where the financial statements include amounts based on 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?	Estimates are made taking into account historical experience, current trends and other relevant factors. The areas where there is a significant risk of material adjustment are: • Property, Plant & Equipment • Pensions Liability • Arrears • Financial Instruments. Details of accounting estimates, nature of data used and the degree of uncertainty will be provided in the financial statements and supporting working papers.
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	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.

22

3

Auditor question	Response
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?	A risk assessment of the 2014/15 budget strategy was undertaken; this report was considered by the Audit Committee and recommended to Cabinet for acceptance.
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?	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 2014/15 alongside the Strategic Plan review in time for 2015/16. 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.
Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Pinsent Mason DACBeechcroft Eversheds Trowers and Hamlyn
Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Capita Asset Services provides treasury management advisory services.
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?	No specific issues have been reported.

Appendix B - Response from Audit Committee Chair

Fraud risk assessment

Auditor question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	The following management processes allow the Council to assess the risk that the financial statements may be materially misstated due to fraud; • The Council's constitution tasks service managers with control of financial resources. • Quarterly reporting of budget monitoring along with the monitoring of financial performance on other balance sheet items is formally reported to the Corporate Leadership Team and to Cabinet. • Risk assessment of the final accounts process and peer review of material elements of the statements by senior officers.
What are the results of this process?	No specific risks have been identified.
What processes does the Council have in place to identify and respond to risks 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 and all payments greater than £40,000. A dedicated fraud team is in place to identify and respond to fraud relating to Benefits and Council Tax fraud.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	No specific fraud risks have been identified in respect of internal Council business. The dedicated fraud team has identified and investigated a considerable number of Benefit fraud and improper applications for Council Tax Single Person Discount.
Are internal controls, including segregation of duties, in place and operating effectively?	The Corporate Leadership Team undertakes an annual review of internal controls and this is reported in the Annual Governance Statement. The most recent report to the Audit Committee on 15 July 2013 contained the Head of Audit Partnership's opinion that substantial reliance can be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Auditor question	Response
If not, where are the risk areas and what mitigating actions have been taken?	No specific risk areas have been identified.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	None have been identified.
Are there any areas where there is a potential for misreporting?	None have been identified.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	The Committee considers the Strategic Risk Register and update reports.
What arrangements are in place to report fraud issues and risks to the Audit Committee?	The Head of Internal Audit provides an annual report on the work of the Internal Audit team and comments on the adequacy and effectiveness of the Council's governance framework governance, risk management and control. The Committee receives an annual Benefit Fraud report. The quarterly Internal Audit reports presented to the Audit Committee also highlight the assurance levels for individual audits.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	The Council's constitution includes an Officers Code of Conduct which provides guidelines on the standards expected of staff.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Council has a Whistleblowing Charter which identifies how staff are able to report any concerns about potential fraud. No significant issues have been reported.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	All Members and Senior Officers are required to complete an annual declaration of interests that includes details of any finance-related transactions with the Council. The results of this process will be included in the 2013/14 Statement of Accounts.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2013?	The dedicated fraud team has identified and investigated a considerable number of Benefit Fraud and improper applications for Council Tax Single Person Discount.

Law and regulation

Auditor question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Council uses the Monitoring Officer and the Change and Scrutiny Section to identify and communicate all new and changed legislation throughout the organisation.
How does management gain assurance that all relevant laws and regulations have been complied with?	Compliance with legislation and action to comply where legislation will change is expected to form a part of the service plan of affected services. Internal Audit has carried out a number of reviews that consider compliance with laws and regulations during the year.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	The Committee considers reports from Internal and External Audit.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2013?	None have been identified.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	
Is there any actual or potential litigation or claims that would affect the financial statements?	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.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No.

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 24 MARCH 2014

REPORT OF HEAD OF POLICY AND COMMUNICATIONS

Report prepared by Angela Woodhouse

1. **UPDATE ON ENHANCED SCRUTINY ARRANGEMENTS AND PUBLIC MEETINGS**

1.1   Issue for Decision

1.1.1 The Audit Committee requested an update on the enhanced scrutiny arrangements and the public meetings cited in the Annual Governance Statement.

1.1.2 In 2012/13 The scrutiny coordinating committee commissioned a small Member working group to undertake a review of the Council's corporate governance model, to consider whether the current model was still appropriate or if the Council should consider an alternative model.

1.1.3 In February 2013 full Council considered the report on models of governance and concluded that the Cabinet system be retained with enhanced scrutiny. The Scrutiny Coordinating Committee were then tasked with developing the model. The new model was approved by Council in April 2013. The report of the Coordinating Committee is attached at **Appendix A for reference**

1.2   Recommendation of the Head of Policy and Communication

1.2.1 That the Audit Committee notes the review of the enhanced scrutiny model, the update on public meetings and makes recommendations as appropriate.

1.3   Reasons for Recommendation

       Review of the Enhanced Scrutiny Model
1.3.1 In order to assist the review of progress a short survey was undertaken of all members- to which 19 responses have been received. It should be noted that that survey only represents the views of less than half of Members. Only 6 respondents believe that

members do not own the scrutiny process and 10 out of the 19 respondents thought there had been an improvement in scrutiny since the changes.

1.3.2 The following comments were received in respect of how the system could be improved:

Establishing a pre meet prior to a scrutiny committee meeting to inform members of the subject which would enhance the actual meeting and overall debate. Perhaps this could be offered by the chair when discussing the future work programme.

2/19/2014 10:50 AM

Find a way to ensure members (a) are given more time to prepare for meetings and (b) lack of preparation has consequences.....

2/14/2014 2:07 PM

They need to be more pro-active in finding out what issues cabinet are considering, and doing pre-decision work to make sure councillors get to make their input. It's no good waiting until the decision is made, or even 2 weeks before the decision is due to be made.

2/12/2014 9:41 AM

Director should attend agenda setting meeting with Chairman and Group(s) spokesperson.

2/11/2014 9:13 AM

Do away with it

2/10/2014 10:28 PM

Make the other committees function better

2/10/2014 5:00 PM

It's about right

2/10/2014 3:36 PM

Keep verbal reports short and force members to read papers and prepare questions. Also, cuts down meeting time

2/10/2014 2:55 PM

But was not in scrutiny in 2012/13. There is no need to-repeat in detail the background to a decision. A simple reference to the appendix is sufficient m

2/10/2014 2:22 PM

To a certain extent, Cabinet members are involving themselves, but they could do a lot more

2/10/2014 2:07 PM

1.3.3 Interestingly 14 respondents believe they have enough time for scrutiny. The majority of those who answered the survey believed that the number of scrutiny committees and frequency of meetings is right.

1.3.4 With regard to question 8 any comments on the system, the following comments were received:

Return to the committee system.

2/19/2014 10:50 AM

Are Cabinet members obliged to attend their relevant Scrutiny meetings? Should be an essential if not.

2/14/2014 2:07 PM

Scrutiny is what members make it. If they want to be subservient, then that is how they'll be. But, if they want to take responsibility and bite the bullet - they can (and should) do that.

2/12/2014 9:41 AM

Scrutiny uninspiring

2/11/2014 9:13 AM

Under Item 6 I believe at least one Scrutiny Committee has grown in stature and been accepted by outside bodies as progressive and determined to improve the functions of the Borough.

No

2/10/2014 3:36 PM

Re q 8 - it depends entirely on the subject matter as to the frequency and length of meetings Re q 8 frequency of meetings should be dictated by each subject being discussed

1.3.5 The Scrutiny Coordinating Committee reviewed the progress made with the recommendations for the enhanced model and their findings are outlined below:

Recommendation	Progress
a) Option B, be agreed with four Overview and Scrutiny Committees meeting on a calendar monthly cycle for the 2013/14 Municipal Year. Scrutiny Coordinating Committee to monitor and review this.	Put in place.
b) Cabinet should revisit its portfolios to avoid overlap, for example Cobtree and Maidstone Leisure Centre between the Economic and Commercial Development and Community and Leisure Services Portfolios.	The portfolios have not been reviewed.
c) Spatial Planning Advisory Group and the Housing Consultative Board be subsumed into scrutiny to avoid duplication and strengthen the scrutiny process.	This has happened.
d) A phased approach is taken to the induction for new Members e) Information supplied to new Members is accessible including contact details for key staff and information on the services provided by the Council, and who to contact regarding those services and alignment to Cabinet Portfolios.	Democratic services have been reviewing the induction process with learning and development. It will be improved as per the recommendations.
f) A glossary of acronyms and terminology and a Frequently Asked Questions list be made available to all Members using the expertise of current Members to identify common areas.	The glossary has not been developed, the policy team have been asked to action this as soon as possible.
g) The development needs for scrutiny and an appropriate	This has happened, the Scrutiny officer identified with Chairmen appropriate

programme be developed by the Overview and Scrutiny Chairmen and the Scrutiny Team. This could include an annual event with other Councils and use of the Parliamentary Outreach support.	training.
h) All new Members to attend a scrutiny committee meeting as part of the induction process.	This has been included in the induction programme 2014.
i) Mentoring of Members be encouraged.	For Groups.
j) Each Overview and Scrutiny Committee to identify development needs at the beginning of the year and then on a quarterly basis via the Scrutiny Coordinating Committee.	This has happened.
k) Cabinet Members attend Committee meetings to present completed Scrutiny Committee Recommendation Action Improvement Plans and the action that will be taken following recommendations; and	Cabinet members have been invited to update the committee on the progress of actions following review work.
l) The Scrutiny Coordinating Committee meet quarterly and monitor Overview and Scrutiny Committee recommendations as part of its role.	The Coordinating Committee have met twice this year at each meeting they have considered the progress of recommendations.
m) Cabinet Member decision reports are amended so they contain contact details for the Cabinet Member and Officer.	This has not been included to date.
n) Cabinet Members make themselves available to discuss forthcoming decisions with Members.	Cabinet Members are available.
o) The decision notice for Cabinet Member decisions contains a section summarising any views put forward by other members on the decision and how these have been taken into account in the decision.	No views have been put into reports but it is not clear whether any Members have tried to put views forward for consideration by Cabinet.
p) That Overview and Scrutiny Chairmen be encouraged to include visiting members at committee meetings.	The rules on visiting members have been updated and Chairmen have taken this on board.
q) Cabinet Members seek to involve scrutiny pre decision wherever possible	This has happened, however, it is not across the board.

r)	That Party/Group Leaders continue to improve the appointment process to Overview and Scrutiny Committees to encourage the right Members	Scrutiny Chairmen indicated this had been improved.
s)	pre-meetings be used for Overview and Scrutiny Committees where appropriate.	This has happened where the Chairman has identified it to be appropriate.
t)	Cabinet Members attend scrutiny at three points during the year to discuss their portfolio and progress made.	This has happened with varying degrees of success.
u)	That each Overview and Scrutiny Committee meet individually to set their work programme with the relevant Cabinet Members invited to give their forward plan for the year ahead.	This has happened.
v)	The Scrutiny Coordinating Committee meet following the individual Overview and Scrutiny Committee meetings to review the work programmes to address overlap and identify opportunities for joint working.	This has happened.
w)	Scrutiny remain with Policy because there is a natural synergy between the two services and closer matching of skills than in Democratic Services	This has remained the case and policy officers have assisted with scrutiny as 1 scrutiny officer can not support four scrutiny committees effectively. Democratic services have assisted with scrutiny meetings as well. With four committees meeting monthly plus additional meetings this support was welcomed and required.

Public Meetings

1.3.6 The Corporate Governance Working group has considered the requirement to hold two public debate meetings per year as outlined in the Council's Constitution. This follows the review of the annual governance statement 2012/13 which identified that these meetings have not been held for a number of years.

1.3.7 The Council is looking at how we engage with residents and the new communication and engagement plan for 2014/15 identifies communication activities for the next year. Within the plan we identify

whether the purpose of the activity is to engage/inform or consult to indicate the different levels of resident engagement.

1.3.8 There are examples of good engagement with individual services across the council for example a recent project with schools on litter whereby young people were given access to funding to implement their own ideas to reduce litter. We also have a number of activities where by residents and businesses can engage on decisions relating to key issues such as the Local Plan, the New Economic Development Strategy and our New Strategic Plan including the recent residents survey.

1.4   Alternative Action and why not Recommended

1.4.1 The Committee could choose not to review public meetings or the enhanced scrutiny model, however, both areas strongly link to the Committee's governance responsibilities

1.5   Impact on Corporate Objectives

1.5.1 Strong governance and good engagement is critical to the achievement of the Council's corporate priorities.

1.6   Risk Management

1.6.1 If the Council has a governance model which is not fit for purpose there will not be an effective check and balance on those making decisions.

1.7   Other Implications

1.7.1

1. Financial	
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

1.7.2 <u>Legal</u>
If the decision is made not to continue with public debate meetings then the constitution will need to be amended to reflect this.

1.8   <u>Relevant Documents</u>

1.8.1 <u>Appendices</u>

Appendix A – Enhanced Scrutiny Model – Scrutiny Coordinating Committee Report

IS THIS A KEY DECISION REPORT?	**THIS BOX MUST BE COMPLETED**

Yes   [ ]   No   [X]

If yes, this is a Key Decision because: ………………………………………………………………..

…….

Wards/Parishes affected: ……………………………………………………………………………………..

…….

Scrutiny Coordinating Committee

Cabinet System with Enhanced Scrutiny Review

1.   Introduction

1.1. Council on 4 February 2013 considered the Corporate Service Overview and Scrutiny Committee's review of corporate governance it was agreed that option C, Retain Cabinet System with enhanced Scrutiny be taken forward. Furthermore it was requested that the Scrutiny Coordinating Committee develop the model and proposals for implementation to be considered at the April Council meeting. This paper outlines the thoughts of the Scrutiny Coordinating Committee and its recommendations for the new model.

1.2. The Committee are keen to stress that whilst change is required to ensure successful Overview and Scrutiny many of the tools are already present; much will depend on Members appetite for change, their willingness to embrace the new model and new ways of working.

2.   Developing the Cabinet and Enhanced Scrutiny Model

2.1.   In order to develop the model the Scrutiny Coordinating Committee considered a number of areas for improvement/development and change. During the governance review a number of issues were raised regarding scrutiny these are attached at Appendix A. Looking at these findings, the debate at scrutiny and then full council a number of areas were identified for discussion:

- § The Overview and Scrutiny Model
- § Vision for Scrutiny
- § Cabinet Member Accountability
- § The role of Scrutiny Chairmen
- § Pre and Post decision Scrutiny
- § Continuous Professional Development
- § Approach to the Work Programme
- § Support for Scrutiny

2.2   The Vision for Scrutiny

2.2.1 The following vision was agreed for Overview and Scrutiny by Members and the Overview and Scrutiny Team in 2007:

"To have an effective and well respected service that ensures the Council's services are delivered equitably, effectively and efficiently to our residents."

2.2.2 The Scrutiny Coordinating Committee reviewed the vision and identified that there was not enough emphasis on the respective roles of overview and scrutiny. The vision has been redrafted as follows:

"To deliver effective overview and scrutiny in respect of holding the Cabinet to account, assisting policy development, service challenge and improvement and external scrutiny."

2.3 The Overview and Scrutiny Model

2.3.1 The Scrutiny Coordinating Committee considered a number of options for the scrutiny model. These are outlined below

Option A – Retain Current Structure

Committee	Terms of Reference	Cabinet
Corporate Services OSC	Cabinet Scrutiny Performance Management Scrutiny Corporate Documents including the Strategic Plan, Strategic Risk Register and MTFS IT Business Improvement Customer Care and Complaints Budget Scrutiny Emergency Planning Communications LSP and Locality Boards Legal Services Procurement and Asset Management Licensing Audit Service	The Cabinet and in particular Cabinet member for Corporate Services
Regeneration and Economic Development OSC	Highways Transport Public Transport Economic Development Support for Business Visitor Economy Learning and Skills Planning LDF and Core Strategy Regeneration projects Employment	Cabinet Member for Economic and Commercial development

Leader

Cabinet Member for |

Committee	Terms of Reference	Cabinet Member
Communities OSC	Community Development Social Inclusion and Equalities Environment Housing Revenues and Benefits Parks and open spaces Environmental Services Waste and Recycling Street Cleansing Active Citizenship and Democracy Neighbourhood Action Planning Vulnerable People and deprivation Crime and Disorder (responsibility for acting as CDRP OSC twice a year) Health Partnerships	Planning, transport and Development Cabinet Member for Community and Leisure Services Cabinet Member for Environment

Option B – Align the Committees to Cabinet Portfolios

The Committees below have been aligned to Cabinet portfolios. There is concern that current Cabinet portfolios have duplication and overlap, the Committee requests that the present portfolios be re-examined. One example given was tourism, the review of the Visitor Information Centre revealed that this sits across three portfolios. Another example was that of the Leisure Centre and Cobtree with overlap between the Community and Leisure Services and Economic and Commercial Development portfolios.

Committee	Terms of Reference	Cabinet Member
Strategic Leadership and Corporate Services Overview and Scrutiny Committee	To provide overview and scrutiny in relation to the following areas and associated strategies, policies and partnerships • Reviewing performance and ensuring appropriate action is identified and executed to remedy performance issues • Asset Management • Communications • Human Resources • Business Transformation and the Corporate Improvement Programme • Equalities	To hold to account the relevant Cabinet Members: Leader; and Cabinet Member for Corporate Services

	• Democratic services • Scrutinising standards of governance and conduct are achieved throughout the business of the Council • Customer service • Corporate finance including regular budget monitoring • Information Technology including scrutiny of the shared service • Council Tax and Housing Benefit including the Revenues and Benefits Shared Service • Mid Kent Improvement Partnership • Democratic Services including electoral services and member services • Procurement, Property Services and Facilities Management	
Economic and Commercial Development Overview and Scrutiny Committee	To provide overview and scrutiny in relation to the following areas and associated strategies, policies and partnerships • Economic Development and Regeneration • Commercial Services Development • The Visitor Economy including the Hazlitt Arts Centre, Maidstone museums, tourism, the Kent Conference Bureau and Maidstone market. • Capital projects and programmes relevant to the portfolio including regeneration and public realm improvement schemes • Events and venues	Cabinet Member for Economic and Commercial Development
Planning, Transport and Development Overview and Scrutiny Committee	To provide overview and scrutiny in relation to the following areas and associated strategies, policies and partnerships • The Council's contribution to securing sustainable construction with respect to development in the borough. • Spatial planning including the Local Development Framework and other spatial planning documents including Development Plan Documents, Development Management policies and development briefs	Cabinet Member for Planning, Transport and Development

	- Transport and Infrastructure (including Highways, Parking, Park and Ride and Public Transport) - Development Management including planning enforcement and land charges - Landscape and Conservation - Building Control	
Community, Leisure Services and Environment Overview and Scrutiny Committee	To provide overview and scrutiny in relation to the following areas and associated strategies, policies and partnerships - Housing - Community Development - Community Safety (To act as the Crime and Disorder Reduction Partnership OSC twice a year) - Safety In Action - Voluntary and Community Sectors - Health - Parks, open spaces and allotments including grounds maintenance - Leisure activities including sporting and recreational based activities and including services provided via the Maidstone Leisure Centre - Community engagement - Allocation and monitoring of grants - Capital projects and programmes relevant to the portfolio including environmental improvement schemes - Air Quality - Contaminated Land - Water - Climate change - Licensing - Carbon Management - Local Biodiversity - Waste minimisation, recycling and collection - Cleansing services - Environmental Health services - Bereavement i.e. services provided from the cemetery and crematorium - Cobtree Golf Course - Climate Change	Cabinet Member for Community and Leisure Services; and Cabinet Member for Environment

Option C – One Overview and Scrutiny Committee and Task and Finish Panels

Under this model there would be one Overview & Scrutiny Committee and a series of time-limited task & finish groups established by the Committee to carry out investigations. For example the Overview & Scrutiny Committee may be responsible for performance monitoring and review, consultation on Cabinet proposals and call-in of decisions whilst in-depth scrutiny and policy review could be carried out by time limited task & finish groups. Task & finish group members can be anyone who is not on the executive.

Option D – Split Overview and Scrutiny

There is a potential to separate the roles of 'Overview' and 'Scrutiny.' One or more Committees could focus on holding the executive to account (call-in, performance monitoring) whilst one or more Committees could focus on policy review and conducting in-depth investigations. According to the Centre for Public Scrutiny there are currently twelve Councils nationally running this model.

Recommendations:

a) **Option B, be agreed with four Overview and Scrutiny Committees meeting on a calendar monthly cycle for the 2013/14 Municipal Year. Scrutiny Coordinating Committee to monitor and review this.**

b) **Cabinet should revisit its portfolios to avoid overlap, for example Cobtree and Maidstone Leisure Centre between the Economic and Commercial Development and Community and Leisure Services portfolios.**

c) **Spatial Planning Advisory Group and the Housing Consultative Board be subsumed into scrutiny to avoid duplication and strengthen the scrutiny process.**

2.4   Continuous Professional Development and Scrutiny Chairmen

2.4.1 It was clear from the Governance Review and discussions at full council that the Chairmanship of scrutiny has a significant impact on its effectiveness. It would be useful to have more guidance on the role set out in the scrutiny members' handbook; this is attached at Appendix B.

2.4.2 The Coordinating Committee considered the roles and skills and what professional development is required to be an effective scrutiny member. It was acknowledged that the development opportunities and tools were already available, however more use needed to be made of these.

Recommendations:

d) A phased approach is taken to the induction for new Members.

e) Information supplied to new Members is accessible including contact details for key staff and information on the services provided by the Council, and who to contact regarding those services and alignment to Cabinet Portfolios.

f) A glossary of acronyms and terminology and a Frequently Asked Questions list be made available to all Members using the expertise of current Members to identify common areas.

g) The development needs for scrutiny and an appropriate programme be developed by the Overview and Scrutiny Chairmen and the Scrutiny Team. This could include an annual event with other Councils and use of the Parliamentary Outreach support.

h) All new Members to attend a scrutiny committee meeting as part of the induction process.

i) Mentoring of Members be encouraged.

j) Each Overview and Scrutiny Committee to identify development needs at the beginning of the year and then on a quarterly basis via the Scrutiny Coordinating Committee.

2.5 Post Decision Scrutiny

2.5.1 The Coordinating Committee identified that recommendations were not always followed up and responses from Cabinet and Officers were not always clear. The Scrutiny Committee Recommendation Action Plans (SCRAIPS) had been helpful but were not always followed up by the Committee and it very much depended on Member enthusiasm for the topic. The Coordinating Committee needed to take greater responsibility for monitoring recommendations and should meet quarterly to ensure this happened.

Recommendations

k) Cabinet Members attend Committee meetings to present completed Scrutiny Committee Recommendation Action Improvement Plans and the action that will be taken following recommendations; and

l) The Scrutiny Coordinating Committee meet quarterly and monitor Overview and Scrutiny Committee recommendations as part of its role.

2.6   Pre–Decision Overview and meetings with Cabinet Members

2.6.1 The governance review had identified the importance of using pre-decision scrutiny to ensure greater member involvement in decision making. The change in Cabinet Member behaviour is welcomed in respect of their positive and proactive use of scrutiny in decision making; for example the up coming decision on play areas.

2.6.2 Regular meetings with the Cabinet Member and Scrutiny Chairmen and Vice-Chairmen will ensure that they are fully aware of the work programmes on both sides and can be involved in policies and decisions at the earliest opportunity.

Recommendations:

   m) **Cabinet Member decision reports are amended so they contain contact details for the Cabinet Member and Officer.**

   n) **Cabinet Members make themselves available to discuss forthcoming decisions with Members.**

   o) **The decision notice for Cabinet Member decisions contains a section summarising any views put forward by other members on the decision and how these have been taken into account in the decision.**

   p) **That Overview and Scrutiny Chairmen be encouraged to include visiting members at committee meetings.**

   q) **Cabinet Members seek to involve scrutiny pre decision wherever possible.**

2.7   Appointment of Overview and Scrutiny Members

2.7.1 Following the concerns raised during the governance review on Member engagement and involvement with Overview and Scrutiny, the Committee discussed the current process for appointing Committee Members and acknowledged that this was a matter for group leaders.

Recommendation

   r) **That Party/Group Leaders continue to improve the appointment process to Overview and Scrutiny Committees to encourage the right Members.**

2.8   Pre-Meetings for Overview and Scrutiny

2.8.1 The Committee considered the use of pre-meetings and acknowledged that they had proved useful when used appropriately.

Recommendation

s) **That pre-meetings be used for Overview and Scrutiny Committees where appropriate.**

2.9   Cabinet Member Appraisals and Holding the Cabinet to Account

2.9.1 The issue of who appraises the Cabinet was raised during the full council debate. The scrutiny committees could fulfil this function through an appraisal of the cabinet portfolio's progress for their respective cabinet members on a six monthly and yearly basis.

Recommendation

t) **Cabinet Members attend scrutiny at three points during the year to discuss their portfolio and progress made.**

2.10   Overview and Scrutiny Work Programme

2.10.1 The Committee considered the best approach to this. The Centre for Public Scrutiny's suggested approach was agreed as the way forward, in terms of the initial work programme meeting. Members discussed whether to hold one big meeting and how the Cabinet Member could be involved. The Scrutiny coordinating committee continue to review the work programmes to identify over lap.

Recommendation

u) **That each Overview and Scrutiny Committee meet individually to set their work programme with the relevant Cabinet Members invited to give their forward plan for the year ahead.**

v) **The Scrutiny Coordinating Committee meet following the individual Overview and Scrutiny Committee meetings to review the work programmes to address overlap and identify opportunities for joint working.**

2.11   Support for Scrutiny

2.11.1 There was a budget for two full time posts. The senior management restructure, currently in its consultation period, proposes that Overview and Scrutiny will move to Democratic Services. Members of the Scrutiny Coordinating Committee unanimously agreed that scrutiny required a different skills set from Democratic Services and there was a natural synergy with Policy.

2.11.2 Therefore to maintain independence the team should stay with Policy and Performance.

Recommendation

    w) Scrutiny remain with Policy because there is a natural synergy between the two services and closer matching of skills than in Democratic Services

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 24 MARCH 2014

REPORT OF HEAD OF AUDIT PARTNERSHIP

Report prepared by Brian Parsons

1. **INTERNAL AUDIT - EXTERNAL QUALITY ASSESSMENT OF CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

1.1 Issue for Decision

1.1.1 To note the outcomes of the External Quality Assessment of the conformance of Internal Audit to the Public Sector Internal Audit Standards and the action that will be taken to ensure full conformance.

1.2 Recommendation of the Head of Audit Partnership

That the Audit Committee note the outcomes of the External Quality Assessment and the action that will be taken to ensure full conformance with the Public Sector Internal Audit Standards.

1.3 Reasons for Recommendation

1.3.1 The Public Sector Internal Audit Standards (PSIAS) were introduced on 1 April 2013 and set the standard for the way that internal audit is delivered in local government and in the public sector generally.

1.3.2 The basis for the Standards is the Institute of Internal Audit's (IIA's) International Professional Practice Framework which includes the Definition of Internal Auditing, Code of Ethics and International Standards. The Public Sector element adds a further dimension and provides clarification on how the international standards should be applied to the public sector.

1.3.3 The Standards specify that external quality assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

1.3.4 An external assessment of conformance with the standards covers the same elements of the internal audit function, whether the internal audit service operates in the finance sector, the public sector or within a FTSE top 100 company.

1.3.5 It was proposed that Mid Kent Audit would seek an early assessment and the Audit Committee was consulted accordingly.

1.3.6 An assessment of Mid Kent Audit was commissioned from the Chartered Institute of Internal Auditors (IIA). The assessment was carried out in January 2014.

1.3.7 The assessment was a 'validated self-assessment' based on a checklist completed by Internal Audit management. An evidence file was prepared to support the self assessment.

1.3.8 The team from the CIIA carried out their work on-site and had access to all Internal Audit files and records, which are held within the electronic audit management system, Team Mate. The team also conducted a series of interviews, which included the relevant senior officer from each of the four Councils, a Head of Service who was able to provide a 'client' view as the receiver of internal audit services, two of the four Audit Committee Chairmen, the External Auditor (the Director/Assurance for Grant Thornton) as well as the Head of Audit Partnership and the majority of the audit partnership team.

1.3.9 The assessment process was intensive, while also being very positive and participative. The assessment team was able to provide examples of good practice from elsewhere and to make suggestions for service improvements.

1.3.10 The External Quality Assessment (EQA) of Mid Kent Audit was the first EQA by the Institute of any local authority internal audit service in the country.

1.3.11 The report relating to the assessment was issued on 22 January 2014 and is attached at Appendix 1.

1.3.12 The report is very positive and confirms that Mid Kent Audit conforms to 50 of the 56 principles and partially conforms to the remaining 6. There were no 'fails'. This is a considerable achievement in the context of the breadth of the PSIAS and provides a high level of assurance to the Committee that the Council receives a very good quality audit service from Mid Kent Audit.

1.3.13 A professional, independent and objective internal audit service is one of the key elements of good governance. Conformance with the Standards provides evidence that Mid Kent Audit matches this

criterion. This means that Members, officers and the external auditors can place reliance on the work of Internal Audit and that Internal Audit is able to make a significant contribution to the governance of the Authority.

1.3.14 There are six recommendations within the EQA report. Responses to the recommendations have been prepared by the incoming Head of Audit Partnership and are shown in the report. The actions will be developed during 2014/15.

1.3.15 It is intended that, on completion of the necessary actions, the IIA assessment team will be invited back to reassess the position and subject to the few partial conformances being addressed, will be able to verify that 'Mid Kent Audit conforms to the IIA's professional standards' and PSIAS. It will then be possible for Internal Audit to make this statement in its reports and promotional literature. This will be particularly helpful if Mid Kent Audit is tasked to seek external clients, as it will be possible to use the assessment to evidence the quality of the audit service.

1.4   Alternative Action and why not Recommended

1.4.1 There are no relevant alternative actions.

1.5   Impact on Corporate Objectives

1.5.1 Internal Audit helps the Council to accomplish its corporate objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In order to be fully effective, Internal Audit needs to comply with and meet the requirements of the Public Sector Internal Audit Standards.

1.6   Risk Management

1.6.1 Internal Audit needs to be able to demonstrate its quality in order to provide the necessary assurances to management and Members. The EQA provides evidence that this risk has been managed.

1.7   Other Implications

1.7.1

1.	Financial	
2.	Staffing	X

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

1.7.2 Financial – The External Quality Assessment cost £7,000. The cost was shared among the four partner Councils and the cost for each was therefore £1,750.

1.7.3 Legal – The statutory Accounts and Audit Regulations 2011 state that 'a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. The Public Sector Internal Audit Standards have been defined as 'the proper practices'.

1.8   Conclusions

1.8.1 The results of the External Quality Assessment provide evidence of the effectiveness and quality of the internal audit service (Mid Kent Audit).

1.8.2 The implementation of the responses to the EQA recommendations will further improve the quality of the audit service.

1.9   Relevant Documents

1.9.1 Appendices

Appendix 1: External Quality Assessment Report for the Mid-Kent Audit Partnership.

1.9.2 Background Documents

Report to Audit Committee dated 25 March 2013 - Public Sector Internal Audit Standards. Report to Audit Committee dated 16 September 2013 - Internal Audit Charter.

IS THIS A KEY DECISION REPORT?	**THIS BOX MUST BE COMPLETED**

Yes ☐   No ☒ X

If yes, this is a Key Decision because: …………………………………………………………………..

…….

Wards/Parishes affected: …………………………………………………………………………………..

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Chartered Institute of
Internal Auditors

External Quality Assessment Report for the Mid-Kent Audit Partnership

Prepared by Chris Baker

on behalf of CIIA's Quality Services,

22nd January 2014.

Our Opinion

The Institute of Internal Audit's (IIA's) International Professional Practice Framework (IPPF) includes the Definition of Internal Auditing, Code of Ethics and *International Standards*. There are 56 basic principles to achieve with more than 150 points of recommended practice. The IPPF also form the basis of the recent Public Sector Internal Audit Standards (PSIAS) applicable to local government, which we have used as the basis for our review.

It is our view that Mid-Kent Audit Partnership conforms to 50 of these principles and the specific interpretations included in the PSIAS. This is an important achievement given the breadth of the PSIAS and the relative pace of change within the sector. The results are consistent with other reviews we have performed illustrating a reasonable baseline position but with scope for improvement.

To achieve full conformance to the Standards and the PSIAS internal audit needs to graduate to greater focus upon risk. In practice this means ensuring audit plans have more emphasis upon strategic risks, audit engagements introduce a focus upon critical success factors and associated risks and the Annual Report and Opinions provides an evaluation of the overall effectiveness of risk management. However, we see this as a progression of the good foundations that have been established and an achievable goal based upon the strong commitment to the Partnership by every member of the consortia.

Provided the Audit Partnership can show the partial conformances have been developed to general conformances this will enable the team to say it 'conforms to the IIA's professional standards' in its reports and promotional literature.

Summary of Mid-Kent Audit Partnership's Conformance	Standards	Does not Conform	Partially Conforms	Generally Conforms	Total
Definition and Code of Ethics	Rules of conduct	0	0	5	5
Purpose	1000 - 1130	0	1	6	7
People	1200 - 1230	0	0	4	4
Performance	1300 - 1322	0	1	6	7
Planning	2000 - 2130	0	3	9	12
Process	2200 - 2600	0	1	20	21
Total		0	6	50	56

GC Generally Conforms means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects.

Achievements of the Audit Partnership

1. The transition to a single employer structure has been managed with care and sensitivity to achieve continuity.

2. An assurance service that has the freedom to do its job – there are no restriction in terms of scope.

3. Leadership and professionalism - the team is respected and valued by audit committee members and senior executives.

4. Well qualified staff with a good mix of skills – including succession planning.

5. Training and development of staff.

6. Delivery and development of risk management.

7. A structured and consistently applied audit process as set out in a procedures manual.

8. Effective use of TeamMate to enhance efficiency and effectiveness.

9. Stakeholders who believe internal auditors are professional in their approach.

10. A monitoring process for the follow-up of audit recommendations.

11. A broad range of quality measures and indicators to monitor performance.

12. Overall commitment to development and continuous improvement.

Stakeholder feedback

Chartered Institute of Internal Auditors

- The achievements of the Audit Partnership have been reinforced during discussions with audit committee members and senior executives. There is a great deal of respect and appreciation for the retiring Head of Internal Audit and unanimous support for the development of the consortia under new leadership.

- Furthermore, it is widely acknowledged that bringing the team together within a single employer arrangement will enable greater flexibility and variety in internal audit delivery, establish a career path for team members and that in time this will open commercial opportunities.

- At the same time the change in structure and the appointment of a new Head of Internal Audit raises expectations. Most stakeholders are of the opinion that the public sector will continue to operate under severe financial constraints and that further change is an inevitable consequence. Within this environment there is a desire to have an internal audit activity that supports the challenges ahead through trusted advice and guidance.

- This means internal audit must operate at a strategic level supporting the further development of risk management and providing assurance around the things that matter – in other words that the key objectives, projects and initiatives are being delivered. To enable this to happen internal audit will need to devote more time understanding the concerns and assurance needs of its stakeholders through informal as well formal mechanisms.

- As a consequence we have prioritised our ideas and suggestions accordingly.

Supporting continuous improvement

Chartered Institute of
Internal Auditors

We set out some ideas for the Partnership Board and Audit Committee members related to Governance and Risk Management

Risk management

The management of risk has been firmly established at a strategic level and we feel this provides the platform to fully embed a risk culture. We therefore encourage Audit Committees and Senior Executives to reflect upon how risk management can be applied in operational areas.

As this will have resource implications we suggest it may be done in key activities which could include project management, procurement, contract management, fraud prevention etc.

In doing so we also recommend that some time be devoted to thinking about how risk appetite is defined – the limits, boundaries and expectations around strategic and operational risks that will further indicate risks are under control.

Response

HAP will raise this matter with the Audit Board and onwards to the Audit Committees. IA will invite each member of the partnership to formulate a risk appetite statement appropriate to their strategic aims and support them in its creation.

To achieve full conformance to the IIA Standards

Chartered Institute of Internal Auditors

We set our recommendations to enable the Audit Partnership to fully conform to specific IIA Standards in order of importance. (1/3)

Standard 2120 Risk Management

Internal audit has had a significant impact upon the implementation and improvement of risk management. Strategic level risk management is functioning well across the Partnership.

As organisations develop the maturity of their risk management the Standards and the PSIAS require internal audit to provide an independent and objective evaluation of risk processes. Typically, this is done through periodic review of the methodology against best practice and annual assurance that processes are applied effectively and that risks reports are reliable. This is an important next step for internal audit whose opinions upon risk management should be included in Annual Reports as a major contribution to Governance Statements. (*There is a specific requirement in the PSIAS that the risk-based plan must take into account the requirement to produce an annual internal audit opinion*).

While internal audit is capable of undertaking this role their involvement in facilitation means they are close to the process. As a result we would further advise that an external advisor be approached once every five years to give a view on the development of risk management. This could be done on a peer review basis or through a partner organisation such as Zurich insurance.

Response: HAP will incorporate a view on the effectiveness of the organisation's risk management in IA's 2014/15 Annual Report and Head of Audit Opinion and ensure that appropriate work to support that view is incorporated into audit plans. The question of external review is a matter for the authorities to determine, but IA will undertake research and recommend specific further action where beneficial.

To achieve full conformance to the IIA Standards

We set our recommendations to enable the Audit Partnership to fully conform to specific IIA Standards in order of importance (2/3).

Standard 2050 Coordination

Effective coordination of internal audit with other internal and external providers of assurance is an important feature of the Standards. The aim is to avoid overlaps and gaps in assurance so that Councils in the Partnership obtain value for money from anyone who has an audit role. (*PSIAS - The chief audit executive must include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources*.)

The strategic risk registers provide the basis to achieve this coordination and we recommend that internal audit should work with senior executives to map who will provide assurance against the high priority/key risks. This should include operational managers at the point of service delivery, managers of support functions, internal audit and external audit to create a comprehensive assurance map based on the 3 lines of defence model.

Response: The 2014/15 audit plan will aim to show appropriate links to the strategic risk registers of the authorities. During 2014/15 IA will work with officers to consider sources of assurance across the authorities' key strategic risks and present this to Audit Committees as an assurance map.

Standard 2010 Planning

To achieve full conformance with the Standards and PSIAS internal audit needs to adopt a fully risk based approach. This not only involves addressing the points on Standard 2130 but also moving to a risk based approach to planning that links audits to the high priority risks included the strategic risks registers. Working towards an assurance map will enable this to occur but for 2014/15 we specifically recommend internal audit plans for each Council in the Partnership should include a selection of audits aligned to strategic risks as a starting point while retaining a selection of reviews from the current audit universe.

Response: As noted above, during 2014/15 IA will develop an assurance map to demonstrate clear links to the strategic risk registers of each authority. However, as an interim measure, the 2014/15 plans will include an analysis of the current key risks and incorporate and clearly flag a selection of the 2014/15 audits as providing direct assurance against those risks.

To achieve full conformance to the IIA Standards

Chartered Institute of Internal Auditors

We set our recommendations to enable the Audit Partnership to fully conform to specific IIA Standards in order of importance (3/3).

Standard 1000 Purpose, Authority, and Responsibility

In our experience internal audit charters spell out responsibilities in full (as required by Standard 1000 and PSIAS) to ensure they are tailored to the organisation and there is complete clarity upon the range of services to be performed. In the case of Mid-Kent we suggest this needs to include as concisely as possible the role internal audit has in relation to facilitating risk management and involvement in major projects.

Response: HAP will review the internal audit charter during 2014/15 as part of its continuing development. This will include seeking to establish and document the role of IA in facilitating risk management and assurance on major projects.

Standards 1310 Requirements of the Quality Assurance & Improvement Programmes

It is clear from a detailed review of quality measures that the Audit Partnership has committed to a full range of external and internal quality assessments. Quite simply the Standards require the preparation of a schedule or timetable for the future programme to help senior executives and the audit committee understand when quality reports will be received.

Response: During 2014/15 HAP will develop an appropriate schedule for future quality monitoring and seek to incorporate the schedule, and progress against its targets, within standard Audit Committee reporting.

Standard 2210 Engagement Objectives

When setting objectives for audit engagements we recommend that assurance be centred upon the criteria for success for that subject area and the management of risks that ensure these criteria are achieved. This may require separate discussions/workshops upon the nature of the criteria and risks but doing so will ensure a fully risk based approach.

Response: During 2014/15 IA will review the objectives setting stage of the audit procedures manual to ensure that audits begin with an appropriate examination of risk and that the conclusions of that examination drive the nature and extent of the audit.

Supporting continuous improvement

We set out some ideas for the Audit Partnership to enhance their overall effectiveness:

Internal Audit Functional Plan

Internal Audit should develop a 2-3 year functional plan that provides a clear view to all stakeholders how the service is going to continue to develop. The plan should include elements on service delivery (assurance mapping, risk management), resourcing, methodology, risk assessment and quality assurance components. It should provide a reference point to assess the continued success of the function in terms of delivering its objectives as defined in the IA Charter. This plan should be presented, approved and delivery monitored by the Audit Committee.

Response: *The incoming HAP will lead on creating a 3 year strategic plan for the service which will be presented to Audit Committees (after appropriate consultation with officers) in 2015.*

Resourcing of IA

Given IA's participation in the RM process and reference points from other EQA reviews the level of IA resource appears reasonable for a developing consortium of this size and ambition. However, we feel there is a skills gap in terms of IT auditing that could perhaps be filled through some form of co-sourcing or in due course the appointment of a senior auditor with experience in that area. In this regard it is better to look to quality rather than quantity to maintain effectiveness and to minimise supervision time . (*PSIAS - The risk-based plan must explain how internal audit's resource requirements have been assessed*).

Response: *The current and future resource needs of the service will be considered as part of the 3 year plan noted above.*

Resource Management

We note audit engagements are consistently exceeding their time allocations (9 of 14 within our review sample) . We suggest a more detailed review of why this might be happening and consideration of appropriate corrective action.

Response: *The incoming HAP will reflect on and continue the ongoing review of engagement completion, which has already led to the time recording system becoming universal across the team. Future action, which may include performance indicators or ongoing monitoring, will be considered where appropriate.*

Chartered Institute of Internal Auditors

Approach

We used a variety of methods to form our opinion, including:

- Review of IA's self-assessment against the IPPF.
- Detailed examination of internal audit documentation and engagement files.
- Face to face discussions and telephone interviews with audit committee members and senior executives across the Partnership (a total of 8 shown in table below).
- Face to face discussions with all members of the Internal Audit service.
- Benchmarking IA practice against IIA practice advisories, practice guides, global surveys, UK and Ireland guidance and case studies.
- Comparison to other organisations who have received an EQA.

Participants

Name	Title	Type
Paul Naylor	Deputy Chief Executive - Ashford	Telephone discussion
David Edwards	Director of Shared & Environmental Services - Maidstone	Face to face meeting
Paul Riley	Head of Finance & Resources - Maidstone	Face to face meeting
Paul Clokie	Audit Committee Chair - Ashford	Face to face meeting
Lee Coyler	Head of Finance & Governance – Tunbridge Wells	Telephone discussion
Rodd Nelson-Gracie	Audit Committee Chair - Maidstone	Face to face meeting
Mark Radford	Director of Corporate Services - Swale	Face to face meeting
Andy Mack	External Auditor – Grant Thornton	Telephone discussion

Chartered Institute of Internal Auditors

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 24 MARCH 2014

REPORT OF HEAD OF AUDIT PARTNERSHIP

Report prepared by Brian Parsons

1.   INTERNAL AUDIT - EXTERNAL AUDIT PROTOCOL

1.1   Issue for Decision

1.1.1 The Audit Committee is asked to note the attached protocol which sets out the working relationship between Mid Kent Audit and Grant Thornton.

1.2   Recommendation of Head of Audit Partnership

1.2.1 That the Audit Committee note the protocol between Internal Audit and External Audit.

1.3   Reasons for Recommendation

1.3.1 The report and more specifically the document at Appendix 1, sets out a short protocol to underpin the working relationship between Mid Kent Audit and Grant Thornton.

1.3.2   The protocol exists to establish a framework for coordination, cooperation and exchange of information. The protocol is reported to the Audit Committee to provide assurance and confirm that, although internal audit and external audit have different roles, both assurance providers work together where possible and when appropriate.

1.3.3 It is important that the respective and different roles of Internal Audit and External Audit are clear but there are opportunities for both parties to share and discuss audit plans, update and review issues identified through on-going or planned work, review progress and exchange key findings. This helps to ensure that best use is made of overall audit resources.

1.3.4 The working arrangements between Internal and External Audit have now been set out in a protocol which should provide assurance to the Audit Committee that both providers work together appropriately. The protocol is short and sets out principles for working together, rather than detailed procedures.

1.3.5 The protocol is shown at Appendix 1.

1.4 <u>Alternative Action and why not Recommended</u>

1.4.1 Not applicable.

1.5 <u>Impact on Corporate Objectives</u>

1.5.1 None directly

1.6 <u>Risk Management</u>

1.6.1 Not applicable.

1.7 <u>Other Implications</u>

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   Conclusions

1.8.1 The existence of a protocol between Internal and External Audit helps
       to ensure that there is clarity in terms of the respective roles and sets
       out the opportunity to coordinate, cooperate and exchange
       information.

1.9   Relevant Documents

1.9.1 Appendices: Appendix 1 – Internal Audit – External Audit Protocol.

IS THIS A KEY DECISION REPORT?		**THIS BOX MUST BE COMPLETED**	
Yes		No	X

If yes, this is a Key Decision because: …………………………………………………………..

…….

Wards/Parishes affected: …………………………………………………………………………..

……..

Grant Thornton

Internal Audit – External Audit Protocol for Mid Kent Audit

Year ended 31 March 2014 and 2015

February 2014

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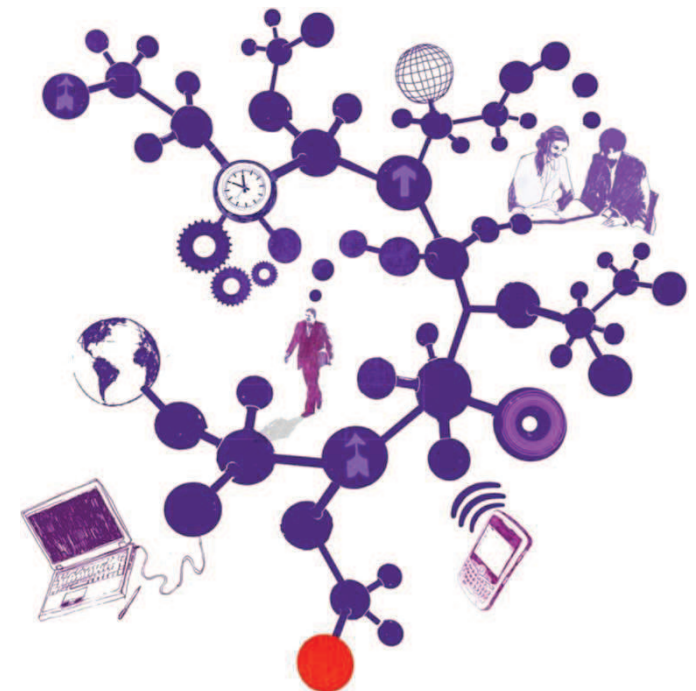
Introduction and Principles

Introduction

The protocol sets out the key principles and procedures underpinning the working relationship with Mid Kent Audit (covering Ashford, Maidstone, Swale and Tunbridge Wells)and the Council's external auditors, Grant Thornton. It establishes a framework for coordination, cooperation and exchange of information.

The protocol is based on the understanding of International Standards on Auditing (ISA), in particular ISA 315 (Identifying and assessing risks of material misstatement through understanding the entity and its environment) and ISA 610 (Using the work of internal auditors).

Principles

ISA 315 states the internal audit function is likely to be relevant to the audit of the financial statements if the nature of their work relates to the entity's financial reporting. ISA 610 recognises external audit and internal audit have different objectives and priorities. The external auditor has the sole responsibility for the opinion on the financial statements and using the work of internal audit does not impact on this responsibility in any way. Therefore the external auditor needs to consider how and whether it is appropriate to place reliance on the work of internal audit.

Procedures

Together internal audit and Grant Thornton will:

- Meet on a quarterly basis to share and discuss audit plans, update and review issues identified through on-going or planned work, review progress and exchange key findings. Such discussions will inform the Grant Thornton audit approach.
- Liaise to identify and exchange knowledge of emerging or identified key risk areas.
- Use quarterly meetings to ensure reporting lines to the Audit Committee are clear and information provided is clear and timely.

Grant Thornton will:

- Advise internal audit which of the financial systems we consider are key to the production on the financial statements.
- Share testing strategies with internal audit on a timely basis to maximise the scope to ensure effective and efficient use of resources for both parties.
- Share details of our approach as requested.

Internal audit will:

- Provide details to Grant Thornton and of fraud above £10,000 and details of any identified or potential cases of corruption.
- Provide Grant Thornton with appropriate access to working papers and relevant documents, and with electronic access to published internal audit reports on key financial systems which may impact upon on the audit approach.
- Share its approach to systems audit work and associated documentation with Grant Thornton.

Way forward:

This protocol has been discussed ad agreed with agreed with Brian Parsons, Mid Kent Audit and Lisa Robertson, on behalf of Grant Thornton. The protocol will be reviewed annually and updated to reflect changes to internal audit standards and the ISAs.

69

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<u>**MAIDSTONE BOROUGH COUNCIL**</u>

<u>**AUDIT COMMITTEE**</u>

<u>**MONDAY 24 MARCH 2014**</u>

<u>**REPORT OF HEAD OF AUDIT PARTNERSHIP**</u>

<u>**Report prepared by Russell Heppleston**</u>

1. <u>**INTERNAL AUDIT OPERATIONAL PLAN 2014/15**</u>

1.1 <u>Issue for Decision</u>

1.1.1 The report sets out the one-year Internal Audit Operational Plan for 2014/15 and asks that the Audit Committee review and approve the Plan.

1.2 <u>Recommendation of the Head of Audit Partnership</u>

1.2.1 That the Audit Committee review and approved the attached Internal Audit Operational Plan for 2014/15.

1.3 <u>Reasons for Recommendation</u>

1.3.1 The purpose of the report is to meet the requirements of the Public Sector Internal Audit Standards in relation to audit planning; and to help to discharge the Section 151 officer's responsibility for financial control; and to inform Management/Members of the planned audit work to be undertaken in 2014/15.

1.3.2 The Accounts and Audit Regulations 2011 place a statutory duty on the Council to 'undertake an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control'. The 'proper practices' for internal audit are defined as being those which are set out in the Public Sector Internal Audit Standards, which were set out for local government by CIPFA in collaboration with the Chartered Institute of Internal Auditors.

1.3.3 The Plan has been prepared in accordance with the standards set out within the PSIAS and has included the following;

- Desktop review of strategic documents and plans

- Interviews with senior officers
- Creation and risk assessment of the 'audit universe'

1.3.4 The Standards require the Head of Internal Audit to establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisations goals (PSIAS 2010 & 2010 A.1).

1.3.5 The Head of Internal Audit is required to review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems and controls.

1.3.6 The Standards state that the Head of Internal Audit must communicate the internal audit plans to senior management and 'the board' (the Audit and Committee) for review and approval.

Preparation of the operational plan

1.3.7 The plan gives specific consideration to:

- the arrangements for the prevention of fraud and corruption
- corporate governance
- compliance with legislation/changes in legislation
- compliance with codes of conduct
- compliance with constitutional rules (e.g. Financial Rules, Contract Rules)
- the 'national agenda'
- coordinating work, or at least as much as practical/appropriate, with the external auditors to ensure that best use is made of audit resources, and:
- Coordinating work, where appropriate and efficient to do so, with the work carried out by Mid Kent Audit for its three other local authority clients.

1.3.8 The plan seeks to:

- provide sufficient coverage of the control environment to allow conclusions to be drawn on its effectiveness and to allow the Head of Audit Partnership to deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement. The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

- give adequate coverage to provide controls assurance to the external auditors

- add value and improve the Council's operations

- help the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes

The Plan

1.3.9 The plan (Appendix 1) shows the projected internal audit work for 2014/15 and incorporates provisional time allocations. Appendix 2 provides the Committee with an overall summary of the joint MKIP service area reviews being delivered by the audit partnership.

1.3.10 The approach to planning has been standardised across the four partnership sites.

1.3.11 The Maidstone plan currently shows a total of 34 audit projects, which is based on the available auditor resources

1.3.12 The risk assessment process has involved considering audit subjects in terms of materiality, inherent risk and control risk, and taking into account changes to systems, revised management arrangements and past history.

1.3.13 The actual time spent on each audit depends on the complexity of the subject, the scope of the work, the quality of the systems and documents that will be examined, the helpfulness of the staff that we need to work with and the issues that arise during the audit. In general terms it takes longer to audit a subject where poor controls are in place. The time allocations shown in the plan are indicative and will be subject to adjustment as necessary when individual engagement briefs are prepared.

1.3.14 The resources available to Internal Audit at Maidstone primarily consist of three full-time operational auditors, supported operationally by an Audit Manager for two and a half days of the week, and strategically by the Head of Audit Partnership.

1.3.15 Each auditor is expected to complete up to twelve projects each year. The Audit Manager works closely with the auditors to ensure that productive time is maximised.

1.3.16 The Plan is flexible in the sense that a new audit topic can be added in the future, subject to the deletion of one of the planned audits.

1.3.17 It is anticipated that greater use of auditor rotation across the four partnership sites will occur in the forthcoming year where it is efficient

to do so. Therefore it is anticipated that one auditor may be allocated to undertake similar reviews across several Council clients with a view to gaining efficiencies in time spent on the review area.

1.3.18 The Internal Audit Plan for Maidstone is sovereign. However, where possible it has been aligned with the audit plans for Ashford, Swale and Tunbridge Wells to facilitate the sharing of audit work programmes and to allow the movement of auditors between sites.

1.3.19 The plan sets out the audit work that will be carried out in relation to the key financial systems such as; Council Tax and Council Tax Support, Business Rates, Creditor Payments and Payroll. The financial materiality of these systems largely dictates that the systems need to be reviewed annually.

1.3.20 The plan goes on to set out the other service areas that will be subject to an internal audit; some of which have little or no financial risk but are subject to regulatory, legal, technological or reputation risk. These subjects may be reviewed annually, biennially or triennially depending on their risk profile.

1.3.21 The new Head of Audit Partnership has had only a limited opportunity to be involved in the planning process. If he considers that any significant changes need to be made to the 2014/15 plan, he will report accordingly to the Committee.

Reporting the work

1.3.22 A written report is provided to the respective Head of Service on completion of each audit project. The Internal Audit report sets out the findings, conclusions and recommendations arising from the audit. A copy of every report is provided to the appropriate Director, the Chief Executive and the Director of Regeneration and Communities (s151 officer).

1.3.23 Heads of Service are required to complete an action plan setting out how they will address the recommendations. The action plan is assessed for adequacy by the Audit Manager.

1.3.24 A follow-up is currently carried out approximately six months after the original report was issued, to establish whether the proposed action has been implemented in practice. The results of the follow-up are reported in writing to the respective Head of Service, with copies to the appropriate Director and the Chief Executive.

1.3.25 If the initial report identifies that only minimal or limited controls are in place and the Head of Service fails to respond adequately or if it is

found that the agreed action has not been taken at the time of the follow-up, the matter will be reported to the next meeting of the Audit Committee. The Head of Service will be invited to attend the meeting to explain the action that will be taken to address the control weaknesses.

1.3.26 The outcomes from Internal Audit reviews are reported to the Audit Committee twice a year. An Interim Report is prepared to show the results of work in the first half of the financial year and is reported to the Committee in November/December. The Annual Internal Audit report shows the work for the complete financial year and is reported to the Committee in June/July to support the Annual Governance Statement. The annual report contains the opinion of the Head of Audit Partnership on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

1.4   Alternative Action and why not Recommended

1.4.1   There is a requirement under the Public Sector Internal Audit Standards that the Head of Internal Audit should prepare a risk-based plan to determine the priorities of the internal audit activity. There are no alternative options.

1.5   Impact on Corporate Objectives

1.5.1   The Internal Audit plan has been prepared to take account of the corporate plan priorities, together with the systems in place to deliver the priorities and manage the risks to their delivery.

1.6   Risk Management

1.6.1   The Internal Audit operational plan sets out a series of projects for 2014/15 to examine the adequacy of the controls that the individual Head of Service has put in place to manage a very broad range of risks to the delivery of strategic and operational objectives.

1.7   Other Implications

1.7.1

1.	Financial	
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	

1.7.2 Legal: The Accounts and Audit Regulations 2011 place a statutory duty on the Council to 'undertake an adequate and effective internal audit of its accounting records and its system of internal control'.

1.8   Relevant Documents

1.8.1 Appendices

Appendix 1: Internal Audit Operational Plan 2014/15
Appendix 2: Mid Kent Shared Service Audit Plan 2014/15

1.8.2 Background Documents

None

IS THIS A KEY DECISION REPORT?   **THIS BOX MUST BE COMPLETED**

Yes [ ]   No [X]

If yes, this is a Key Decision because: ………………………………………………………..

…….

Wards/Parishes affected: …………………………………………………………………………..

……..

No	Audit Title	Assurance to be Provided	Provisional Days	Indicative Audit Scope
1	**Business Continuity Planning**	Compliance	10	To review progress against the implementation of Zurich business continuity planning work and the formation of updated plans for 2014/15. Key controls assurance over the adequacy of the plans for key services.
2	**Customer Services**	Compliance	15	To establish compliance with the Customer Care Policy - focussing on the 5 'promises'. To review the adequacy of control provided by the CRM case management system and the accuracy of performance and monitoring information.
3	**Members and Officers Declarations of Interest**	Compliance	15	To establish the controls in place to inform and remind Officers and Members of their requirements under the Code of Conduct. To review the controls in place over the receipt, collection and reporting of declarations. To review the adequacy of controls over gifts and hospitalities.
4	**Member Services: Allowances and Expenses**	Operational & Financial Controls	10	Compliance with the defined Members allowance scheme. To establish the accuracy of payments made to members. To establish the controls over claiming, processing and authorising of Members expenses. Consideration to transparency requirements and the publication of information to the public.
5	**Information Management**	Corporate Governance	10	Internal Audit has a defined role within the action plan to provide independent advice and assurance. Internal Audit will maintain a presence on the Corporate Governance Working Group. At the appropriate time, review progress against the information management action plan.

6	**Corporate Governance**	Corporate Governance	15	To conduct a self-assessment (health-check) against the CIPFA/SOLACE* good governance framework. Consideration to be given to the Local Code of Governance and progress against the actions identified in the Annual Governance Statement (AGS). *(Society of LA Chief Executives & Senior Managers)
7	**Communications: Press & Public Relations**	Compliance	15	To determine adequacy of controls relating to external communications. Consideration to be given to the implementation of the Social Networking Policy and the associated emerging risks.
8	**Channel Shift Project**	Project Assurance	15	To review the Council's progress against the Channel Shift project.
9	**Planning Support Shared Service**	Operational & Financial Controls	20	See Mid Kent Shared Service Audit Plan
10	**Emergency Planning**	Compliance	15	Compliance with the Civil Contingency Act as Category 1 responder to emergencies. To establish the Council's level of preparedness for an emergency event. To determine the adequacy of resources, training and testing of the Council's emergency planning arrangements.
11	**Land Charges**	Operational & Financial Controls	10	To determine the adequacy of controls in place to process requests for searches and to notify the results of searches. To ensure that income is received in full and is appropriately accounted for. Consideration given to changes in procedures as a result of the Planning Support Shared Service (June 2014).
12	**Waste Collection Contract: Monitoring**	Contract Management	20	To establish compliance with contract terms and specifications. To determine the adequate management and monitoring of the Waste Collection contract.

75

13	**Street Cleansing**	Operational & Financial Controls	15	To establish compliance with contract terms and specifications. To determine the adequacy of the contract monitoring arrangements - including performance.
14	**PC & Internet Controls**	Information Systems	15	To establish compliance with the Council's information security policies and computer use policies. To review the controls over the acquisition and disposal of IT assets.
15	**Teammate Development**	Service Delivery	10	Development of the Teammate audit management software to consider new ways of managing and reporting audit recommendations and implementation of actions.
16	**Business Assurance Mapping**	Service Delivery	15	To conduct a business assurance map for the Mid-Kent Audit Council – to identify the different assurance providers to the Councils.
17	**Strategic and Operational Risk Management**	Risk Management	15	To facilitate the implementation of the risk management strategy/framework. Review the effectiveness of strategic and operational risk management in line with the risk management strategy.
18	**ICT Project Management**	Information Systems	15	See Mid Kent Shared Service Audit Plan
19	**Payroll**	Key Financial Systems	20	See Mid Kent Shared Service Audit Plan
20	**Data Protection**	Compliance	15	To establish compliance with the statutory requirements of the Data Protection Act. To review the appropriateness of training and awareness provisions for the Council. Consideration to be given to the data retention and destruction in accordance with data protection principles.
21	**Leisure Centre**	Contract Management	15	To establish and review the adequacy of the contract management and monitoring arrangements for the Leisure Centre, and the relationship with the Contractor (SERCO). Consideration to be given to additional outcomes to be delivered via the contract - for instance sports development.

22	**Commercialisation Programme**	Operational & Financial Controls	15	At the appropriate time, Internal Audit will provide advice in relation to risk management and controls assurance over the commercialisation programme. Consideration to be given to the identification and prioritisation of commercial ventures.
23	**Accounts Payable (Creditors)**	Key Financial Systems	5	Systems walkthrough and documentation of key controls and risks. Assurance to be provided over the adequacy of controls.
24	**Corporate Credit Cards**	Key Financial Systems	10	To review progress against the implementation and compliance with the Credit and Purchase Card policy. To establish the controls over the use of credit and purchase cards via the new system and the appropriateness of credit card expenditure.
25	**Bank Reconciliation**	Key Financial Systems	15	Systems walkthrough and documentation of key controls and risks. Assurance to be provided over the adequacy of controls. Consideration to be given to resilience due to significant changes to staff within the Finance team.
26	**VAT Management**	Operational & Financial Controls	15	To provide assurance over the classification of good and services for VAT purposes. To ensure that VAT is correctly accounted for in a timely manner. To verify the accuracy and completeness of the monthly VAT returns submitted to the HMRC. Consideration to be given to Partial Exemption calculations.
27	**Business Rates Retention Scheme**	Risk Management	15	To review the controls in place to provide assurance that the Council is adequately managing the risks associated with the Business Rates Retention Scheme.
28	**Procurement**	Operational & Financial Controls	15	To review compliance with the Councils agreed contract procedures rules. Consideration to be given to the impact of the commissioning and procurement framework.

29	**Asset Management: Commercial Property Investment**	Operational & Financial Controls	15	At the appropriate time, to conduct controls and risk assurance work over the management arrangements of the commercial properties purchased.
30	**Asset Management Plan**	Operational & Financial Controls	15	To provide assurance over the asset management plan via compliance testing on recent asset management decisions. Consideration to be given to decisions relating to Community Assets.
31	**Rent Accounting System**	Project Assurance	10	Internal Audit to provide a view on risk and control via the project assurance role.
32	**National Fraud Initiative (NFI)**	Fraud Prevention	10	To facilitate, support and co-ordinate the NFI exercises. Internal Audit will act as the single point of contact.
33	**Business Rates**	Risk Management	25	See Mid Kent Shared Service Audit Plan
34	**Fraud Risk Review**	Fraud Prevention	10	To conduct a self-assessment review against the Audit Commission's 'Fighting Fraud Checklist for Governance'.

No	Audit Title	Assurance to be Provided	Provisional Days	Indicative Audit Scope	Audit Plan Allocation
1	**MKIP Partnership Governance / Outcomes** Partners: MBC/SBC/TWBC	Corporate Governance	20	To establish the MKIP governance arrangements. To review the outcomes delivered from a selected sample of mid Kent shared services/partnerships.	TWBC Allocation
2	**Business Support - ICT Project Management** Partners: MBC/SBC/TWBC	Information Systems	15	To provide assurance over the IT project management framework and implementation of major IT projects. Specifically the scope will consider the iDocs Planning Support System	MBC Allocation
3	**Service Desk** Partners: MBC/SBC/TWBC	Information Systems	20	Service delivery review. Detailed scope to be confirmed and reported during the Q3 and Q4 audit report in September 2014	SBC Allocation
4	**Planning Support Shared Service: Financial Controls** Partners: MBC/SBC/TWBC	Financial Systems	20	To provide assurance over the controls for the collection, banking and payment of planning application income. To provide consultancy and advice over the risk management arrangements for the Planning Support Shared Service.	MBC Allocation
5	**Payroll** Partners: MBC/SBC	Key Financial System	25	Systems walkthrough and documentation of key controls and risks. Detailed audit scope to focus on the processing and payment of expenses.	MBC Allocation

6	**Cashless P&D System Implementation** Partners: MBC/SBC	Project Management	15	To provide project assurance over the implementation of the cashless P&D system. To review the key financial controls over the collection and reconciliation of P&D via the cashless system.	SBC Allocation
7	**Council Tax** **Partners: MBC/TWBC**	Key Financial Systems	25	Systems walkthrough and documentation of key controls and risks. Assurance to be provided over the adequacy of controls.	TWBC Allocation
8	**Housing & Council Tax Benefits** Partners: MBC/TWBC	Key Financial Systems	25	Systems walkthrough and documentation of key controls and risks. Assurance to be provided over the adequacy of controls.	TWBC Allocation
8	**Business Rates** Partners: MBC/TWBC	Key Financial Systems	25	Systems walkthrough and documentation of key controls and risks. Assurance to be provided over the adequacy of controls.	MBC Allocation