

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 19 March 2018
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Adkinson, Butler, Coulling (Parish Representative), English (Vice-Chairman), Fissenden, Mrs Gooch, Harvey, McLoughlin (Chairman), Perry and Webb

The Chairman will assume that all Members will read the reports before attending the meeting. Officers are asked to assume the same when introducing reports.

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Issued on Friday 9 March 2018

Continued Over/:

Alison Broom

Alison Broom, Chief Executive

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PUBLIC SPEAKING AND ALTERNATIVE FORMATS

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MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 15 JANUARY 2018

Present: Councillor McLoughlin (Chairman) and Councillors Adkinson, Butler, Coulling (Parish Representative), English, Field, Fissenden, Mrs Gooch, Harvey and Perry

Also Present: Mr Matt Dean of Grant Thornton – External Auditor

61. APOLOGIES FOR ABSENCE

There were no apologies for absence.

62. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

63. URGENT ITEMS

There were no urgent items.

64. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

65. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

66. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

67. EXEMPT ITEMS

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

68. MINUTES OF THE MEETING HELD ON 20 NOVEMBER 2017

RESOLVED: That the Minutes of the meeting held on 20 November 2017 be approved as a correct record and signed.

Minute 56 – Internal Audit and Assurance Report

In response to a question, the Head of Audit Partnership reminded the Committee that at the last meeting, concern had been expressed that whilst the audit review of the Accounts Payable system had found appropriate separation of duties between departments raising orders and the payment of invoices by the Finance Team, the current responsibilities and processes over the payment run meant that an Officer (within Finance) could set up a supplier and make a payment without the details being checked. The Officers had undertaken to provide further details to allay concerns about the risks seemingly posed by this finding.

In summary, the audit review had found that although a reasonable control existed, its success relied on communications within the Finance Team. Specifically, the Officer making the change had to tell a colleague to check the details, rather than that prompt happening automatically. This meant that the review could potentially be missed or manipulated.

The Finance Team had undertaken to enhance its controls to eliminate the risks, and now undertook a separate control routine involving production and sign off of a report relating to changes in supplier details. The Internal Audit Team was of the view that the risks had been addressed by this separation of duties, and would not feature in the Risk Register going forward.

69. PRESENTATION OF PETITIONS

There were no petitions.

70. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

71. COMMITTEE WORK PROGRAMME

RESOLVED: That the Audit, Governance and Standards Committee Work Programme for the remainder of the 2017/18 Municipal Year be noted.

72. HOUSING BENEFIT GRANT CLAIM

Mrs Liz Norris, Business Support Manager, introduced her report summarising the outcome of the work undertaken by Grant Thornton, the External Auditor, to certify the Housing Benefit Grant Claim submitted by the Council for the financial year 2016/17. It was noted that:

- The claim related to expenditure of £46.7m.
- The External Auditor had undertaken a sample check of 60 Housing Benefit claims across the main areas of expenditure and identified 3 errors. As a result of the errors identified, a further sample of 120 cases was checked, and 3 more errors were identified. The total value of the errors identified was £611. As a result of the errors identified,

the claim was amended and qualified. With the value of the errors extrapolated across the subsidy claim, a total adjustment of £25,004 was made with the net effect being an increase of £17,280 in the subsidy paid to the Council.

- It was not unusual for Housing Benefit Grant Claims to be qualified and the Council had been the exception in not being qualified in previous years. The level of adjustment as a result of the audit represented 0.05% of the total grant claim.
- Procedures and training had been put in place to eradicate the types of errors found, supported by robust quality assurance measures. An increased level of checking would be undertaken in advance of submission of the 2017/18 grant claim. The service was actively looking at automation to avoid transposition of figures.

In response to questions, the Officers/representative of the External Auditor explained that:

- In terms of the errors found and checking in advance of submitting the 2017/18 grant claim, a 100% check would be undertaken in respect of one of the areas where errors had been identified. With regard to the other areas, the quality assurance product would be used to target the particular elements that had caused problems.
- Extrapolation was where a % error rate found when testing a sample of claims for that error was applied to the total amount which might be affected by the error to estimate the potential value.
- Staff worked in accordance with the Housing Benefit Regulations, and errors identified were errors made by staff when carrying out assessments.

Members were mindful that the extrapolated financial impact of the errors on the Council's claim were relatively insignificant to the total subsidy receivable.

RESOLVED: That the findings of the Housing Benefit Grant Claim audit undertaken by Grant Thornton and the planned action by the Revenues and Benefits Service be noted.

73. ANNUAL GOVERNANCE STATEMENT UPDATE

Mrs Angela Woodhouse, the Head of Policy, Communications and Governance, introduced her report updating progress against the Annual Governance Statement Action Plan for 2017/18. Mrs Woodhouse advised the Committee that the four Councillor Briefings on the General Data Protection Regulation scheduled to be held prior to Service Committee meetings during January would commence at 5.00 p.m.

It was noted that the Action Plan was produced and published with the Annual Governance Statement for 2016/17. It focused on areas identified

in the Annual Governance Statement as requiring additional action and assurance including engaging with local people; Member and Officer relationships; risk management; decision making; information management; contract management; and internal audit reviews with weak assurance ratings. Action had been taken in all areas as set out in Appendix A to the report.

In response to questions, the Officers explained that:

- The internal audit review of the Hazlitt Theatre had found weak controls to be in place. Only one recommendation, relating to a low priority issue, was outstanding, and the service was now rated as sound.
- The internal audit review of Park and Ride had found weak controls to be in place. Only one recommendation relating to contract monitoring procedures remained outstanding, but since contract monitoring was a high priority area, the assessment remained as weak.

Arising from the discussion, Mrs Woodhouse undertook to liaise with the Corporate Health and Safety Adviser and to circulate details of when fire drills last took place at Maidstone House, The Link and Terrace and the Town Hall. She also undertook to provide an update on progress against the action plan which had been created following the Member/Officer Leadership Team Away Day, including timescales.

RESOLVED: That the Annual Governance Statement Action Plan 2017/18 update be noted.

74. COUNTER FRAUD & CORRUPTION POLICY

Mr Rich Clarke, Head of Audit Partnership, introduced his report proposing a refreshed policy setting out how the Council aimed to identify and mitigate the risks of fraud, corruption and wider economic crime and how the Council would deal with incidents.

Mr Clarke explained that:

- The Council's present counter fraud policy dated from 2009. Whilst the document remained fundamentally sound in setting out a robust counter fraud message and how the Council would deal with incidents as they arose, there were some areas that needed re-examination.
- There had been changes to legislation, including the Bribery Act 2010, and updates to best practice (CIPFA's Counter Fraud Code of Practice) that should feature within the Council's policy making. The Code included a recommendation that Councils should seek to orientate their policies as to how they would identify and address the risk of fraud and to what they would do if it occurred. The policy aimed to fulfil these requirements by going into more detail about how the Council would seek to investigate and address instances that arise, the types of instances the Council would be looking to identify and the

actions the Council would seek to take to mitigate the risk, including e-learning, workshops and designing new systems.

- A lot of the detail would come forward in the Internal Audit and Governance Plan 2018/19 which would set out some of the proactive work the Internal Audit Team intended to undertake in high risk areas to provide assurance that the Council's arrangements were sufficiently robust to address the risk of fraud arising as well as having strong arrangements for dealing with it should it occur.
- It was a function of the Audit, Governance and Standards Committee to recommend and monitor the effectiveness of the Council's Counter Fraud and Corruption Policy. Approval of the Policy was delegated to the Policy and Resources Committee.

RESOLVED to RECOMMEND to the POLICY AND RESOURCES

COMMITTEE: That the Counter Fraud and Corruption Policy, attached as Appendix 1 to the report of the Head of Audit Partnership, be approved subject to the following amendments:

Paragraph 16 – Amend the first sentence to read:

Officers shall be alert to the possibility of economic crime and report any suspicious activity.

Paragraph 17 – Amend the first sentence to read:

Officers shall comply with the Code of Conduct and all relevant Council policy and procedures.

Paragraph 33 – Amend to confirm that data will be handled in accordance with the Data Protection Regulations.

Paragraph 38 – Amend the first sentence to read:

The culture and tone of the Council must be one of honesty with zero tolerance towards fraud, bribery and corruption.

Paragraph 40 – Amend the first sentence to read:

Criminal prosecutions deter potential offenders and reinforce our zero tolerance towards economic crime.

APPENDICES

Whilst the Committee understood the reasons for not including details of all of the Appendices to the policy, it was considered that, as appropriate, a summary should be included to provide assurance to people raising issues that investigations will be undertaken with due professionalism and independence.

Note: Councillor English left the meeting at the start of this item (7.00 p.m.).

75. TREASURY MANAGEMENT STRATEGY 2018/19

Mr John Owen, Finance Manager, introduced his report setting out the draft Treasury Management Strategy for 2018/19, including the Treasury Management and Prudential Indicators.

Mr Owen explained that:

- The Strategy was based upon a proposed Capital Programme for 2018/19 to 2022/23 which would be discussed by the Policy and Resources Committee on 24 January 2018, and might be subject to amendments.
- The Council had not changed its stance from 2017/18 and would continue to run down balances to fund the Capital Programme until such time that prudential borrowing was needed. On the assumption that the Capital Programme would be fully spent, the Council might be in a borrowing position by the end of 2018/19.
- Most investments would be short term (less than a year), but there was a provision for longer term investments (£5m) if rates were appealing.
- Upon the advice of Arlingclose, the Council's Treasury Management advisers, he wished to make the following amendments to the Treasury Management Strategy Statement (Appendix A) and the Prudential Indicators (Appendix C):

Appendix A – Pages 15-16 – Table showing Non-Specified Investment Limits – Amend second line to read:

Total investments without credit ratings or rated below A- *except UK Government and Local Authorities* - £5m

Appendix A – Page 16 – Table showing Investment Limits – Increase the cash limit in respect of negotiable instruments held in a broker's nominee account from £5m to £10m per broker. Arlingclose felt that this restricted the Authority when using different financial instruments these provide.

Appendix C – Amend to include reference to the Gross Debt and the Capital Finance Requirement Indicator. The purpose of this indicator was to ensure that borrowing required was only used for the Capital Programme and not for revenue purposes. The Gross Debt should not exceed the Capital Financing Requirement.

- CIPFA had revised the Prudential Code which took into account non-treasury investments and had changed the wording of Treasury

Management Practices which would require an amended Strategy to be reported to the Committee probably mid 2018/19.

During the ensuing discussion, Members drew attention to the following typographical errors in the Treasury Management Strategy Statement:

Page 10 – Amend the figure in the first line of the second paragraph to read £5.547m.

Page 10 – Amend the second word of the second line of the penultimate paragraph to read “forgone”.

In response to questions, the Officers explained that:

- The capital expenditure prudential indicator was a summary of the Council’s capital expenditure plans that were known about at this stage. The capital expenditure forecast of £5.025m as at 2021/22 would increase nearer that time.
- The interest rate forecasts provided by Arlingclose did have upside and downside risks. The assumption was that interest rates would remain constant for a period of time, but they could go up. The Council was currently maintaining an under-borrowed position. This meant that the Capital Financing Requirement had been funded using cash supporting the Council’s reserves, balances and cash flow as a temporary measure rather than through loan debt. This strategy was prudent as currently borrowing rates were higher than investment returns.
- Local authorities were not allowed to borrow in foreign currencies.
- In terms of limits to borrowing activity, the operational boundary was the limit which external debt was not normally expected to exceed. In most cases it would be a similar figure to the Capital Financing Requirement which was a measure of the Council’s borrowing need to fund the proposed Capital Programme. A negative amount showed the Council had more funding than capital expenditure. The authorised limit for external debt represented a control on the maximum level of borrowing in any particular year.
- The ratio of financing costs to net revenue stream indicator showed the proportion of the revenue budget that was attributable to the financing costs of capital expenditure. The estimated 2.9% in 2021/22 was a very low figure compared to commercial bodies.
- The Medium Term Financial Strategy assumed that the Council would be able to borrow from the PWLB at competitive rates, but there was a risk that this might be subject to restrictions in future. However, recent Government consultations and announcements did not indicate a direct impact for the Council’s spending plans.

- If the Council was to borrow to fund the Capital Programme, the affordability of the Programme would need to include an assessment of the cost of borrowing compared with the return on investments and appropriate provision would need to be built in to the Medium Term Financial Strategy to cover the cost.
- The Medium Term Financial Strategy inflation projections were based on the Government's 2% target, but this could be higher.
- Other funding streams proposed in the development of the Capital Programme included the New Homes Bonus Grant (revenue funding). No major capital receipts were envisaged.

During the discussion Members expressed concern about the risks associated with unexpected changes in interest rates, exchange rates and inflation. The Director of Finance and Business Improvement undertook to keep Members up to date with developments in these areas.

RESOLVED to RECOMMEND to the COUNCIL: That subject to (a) any potential amendments arising from the Policy and Resources Committee's consideration of the Capital Programme; (b) the amendments to the Treasury Management Strategy Statement (Appendix A) and the Prudential Indicators (Appendix C) made by the Finance Manager at the meeting; and (c) the correction of the typographical errors identified at the meeting, the Treasury Management Strategy for 2018/19, including the Treasury Management and Prudential Indicators, attached as Appendices A and C to the report of the Director of Finance and Business Improvement, be adopted.

76. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

Mr Mark Green, Director of Finance and Business Improvement, introduced his report providing an update on the budget risks facing the Council.

It was noted that:

- The funding context had now been clarified by a Government announcement in December 2017 regarding the 2018/19 local government finance settlement. This confirmed that the settlement for next year would be in line with the previously announced four year settlement 2016/17 – 2019/20. The Secretary of State had also said that the Government would be looking at options for dealing with negative Revenue Support Grant (RSG), and since the Council was facing £1.6m of negative RSG in 2019/20, this was very welcome.
- In the light of higher than anticipated inflation, the Government was giving Councils the ability to increase Council Tax by an additional 1% without a local referendum. The Policy and Resources Committee would consider whether the Council should take advantage of this as part of the budget setting process for 2018/19.

- There had been indications that restrictions might be introduced on local authority borrowing following adverse publicity regarding substantial borrowing undertaken by a small minority of Councils. Recent Government consultations and announcements did not indicate a direct impact for the Council's spending and prudential borrowing plans.

In response to questions by Members, Mr Green explained that:

- It had been announced that Kent and Medway would be a 100% Business Rates pilot area in 2018/19. This would provide a one-off additional amount of business rates income for the Council in 2018/19, provisionally estimated to be £640,000. The Policy and Resources Committee would consider proposals regarding the budget allocation of this amount at its next meeting. It was hoped that the benefits of pilot membership would continue in future years.

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

77. DURATION OF MEETING

6.30 p.m. to 8.15 p.m.

Agenda Item 11

Audit, Governance & Standards Committee

19 March 2018

Complaints Received Under the Members' Code of Conduct

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service/Lead Director	Patricia Narebor – Head of Legal Partnership and Monitoring Officer
Lead Officer and Report Author	Christine Nuttall – Senior Corporate Governance Lawyer (Locum) of Legal Partnership
Classification	Public
Wards affected	All

Executive Summary

The report provides an update to the Committee on complaints received under the Members' Code of Conduct for the period 1st November 2017 to 28th February 2018. The Committee is asked to note the contents of the report.

This report makes the following recommendations to this Committee:

1. The Committee is asked to note the contents of the report.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	19 March 2018

Complaints Received Under the Members' Code of Conduct

1. INTRODUCTION AND BACKGROUND

- 1.1 It is a requirement under the Localism Act 2011 that all Councils adopt a Code of Conduct and that the Code adopted must be based upon the Nolan Principles of Conduct in Public Life. The current Members' Code of Conduct ("the Code") for Maidstone Borough Council is set out in the Constitution adopted in May 2015 (and is unchanged from the previous Code of Conduct).
- 1.2 The Localism Act 2011 requirement to adopt a Code of Conduct also applied to all the Parish Councils. Consequently, all the Parish Councils in the Maidstone area adopted their own Codes of Conduct with the majority adopting the Borough Council's Code of Conduct.
- 1.3 Under the Localism Act 2011 Maidstone Borough Council is responsible for dealing with any complaints made under the various Codes of Conduct throughout the Maidstone area.
- 1.4 The Constitution stipulates that oversight of Code of Conduct complaints would fall under the terms of reference of the Audit, Governance and Standards Committee.
- 1.5 As part of the Committee's oversight function it is agreed that the Monitoring Officer will provide reports on complaints to the Audit, Governance and Standards Committee. It should be noted that the Localism Act 2011 repealed the requirement to publish decision notices; therefore in providing the update to the Committee the names of the complainant and the Councillor complained about are both kept confidential in accordance with the Data Protection Act 1998.
- 1.6 Since the last report to this Committee on 20th November 2017 there have been no new complaints, although two complaints on the 20th November were still awaiting initial assessment. The final decision in relation to those two complaints was as follows:

Borough Council Complaint

Date Received	Date of Final Decision	Decision
21/08/2017	19/12/2017	No breach of the Code of Conduct

Parish Council Complaint

Date Received	Date of Final Decision	Decision
28/10/2017	13/12/2017	No breach of the Code of Conduct

- 1.7 The Constitution provides for a Hearings Sub-Committee to meet to consider any complaint which remains valid after investigation and

consideration by the Monitoring Officer in consultation (as required) with the Independent Person. To date the Hearings Sub-Committee has not yet been required to meet.

2. AVAILABLE OPTIONS

- 2.1 The Committee could decide that they no longer wish to receive the updates on complaints under the Code of Conduct. This is not recommended as it is part of the Committee's general oversight function.
 - 2.2 That the Committee note the update on complaints received under the Members' Code of Conduct.
-

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 Option 2.2 that the Committee note the update on complaints received under the Members' Code of Conduct is recommended as it is essential that the Committee continue to oversee the complaints received.
-

4. RISK

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

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

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

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

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

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	High standards of conduct are essential amongst Members in delivering the Council's priorities and the Code of Conduct and complaints procedure supports this.	Head of Legal Partnership

Risk Management	This report is presented for information only and has no risk management implications, however, an effective Code of Conduct and robust complaints procedure minimises the risk of Member misconduct and is part of an effective system of governance.	Head of Legal Partnership
Financial	There are no direct financial implications; however, should it be necessary to appoint external Independent Investigators the cost of this will be met by the Borough Council.	Head of Legal Partnership
Staffing	The complaints procedure is dealt within the remit of the Monitoring Officer with input from the Legal Team as required.	Head of Legal Partnership
Legal	The requirements of the Localism Act 2011 with regards to the Code of Conduct and complaints procedure are set out within the report. The reporting process ensures that the Committee continues its oversight of the Code of Conduct as required by the Constitution.	Head of Legal Partnership
Privacy and Data Protection	No personal information is provided as part of the report.	Head of Legal Partnership
Equalities	Any potential to disadvantage or discriminate against different groups within the community should be overcome within the adopted complaints procedures.	Head of Legal Partnership
Crime and Disorder	None identified in the report.	Head of Legal Partnership
Procurement	None identified in the report.	Head of Legal Partnership

8. REPORT APPENDICES

None

9. BACKGROUND PAPERS - None

Agenda Item 12

Audit Governance and Standards Committee

19 March 2018

Progress update on the General Data Protection Regulation

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Director/Head of Service	Head of Policy, Communications and Governance and Data Protection Officer
Lead Officer and Report Author	Anna Collier, Policy and Information and Manager
Classification	Public
Wards affected	All

Executive Summary

The General Data Protection Regulation (GDPR) will replace the Data Protection Act (1998), coming into force on 25 May 2018. This report provides an update on progress to prepare to ensure that the Council is compliant with the changes.

This report makes the following recommendations to this Committee:

1. The update on the General Data Protection Regulation be noted.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	19 March 2018

Progress update on the General Data Protection Regulation

1. INTRODUCTION AND BACKGROUND

- 1.1 The purpose of this report is to provide an update on the Council's preparations for the General Data Protection Regulation (GDPR) that will replace the Data Protection Act (1998), coming into force on the 25 May 2018.
 - 1.2 Members were presented with a report in November 2017 that gave a summary of the General Data Protection Regulation and what the Council would need to do in order to become compliant.
 - 1.3 Four months into the preparation, this report provides an update on progress to date, information and advice from the Information Commissioners Office and risks that Committee should be aware of.
-

2. Action Plan Progress Update

- 2.1 Over the last four months a substantial amount of work has been undertaken across the authority to ensure that the Council is prepared and compliant with the new data protection legislation. The action plan is monitored by the Information Management Group to which the Chair of the Audit Governance and Standards Committee is invited.
- 2.2 A third of the total action plan is now complete with an additional third in progress or ongoing. There have been some delays mainly due to difficulties recruiting to a temporary shared post to help support the work. The majority of the actions that were scheduled to be completed by February have been completed with only 2 actions delayed for completion in April.
- 2.3 An overview of the work undertaken is summarised below.

Training and awareness raising.
- 2.4 The Head of Policy, Communications and Governance (DPO) and the Policy and Information Manager have both undertaken and passed the GDPR Practitioner course and training has been undertaken by the Information and Corporate Policy Officer. Additional training has been identified as being important to the Data Protection Officer role and this has been booked for later this year.
- 2.5 Four briefing sessions were held for Councillors in January and 21 Councillors attended. The Council is currently awaiting an e-learning module for Councillors from the Local Government Association, which will be circulated when available. Further briefing sessions will be held in late April/Early May as a refresher and to launch Member guidance.

- 2.6 Team Talks have been issued and run by managers or by the Head of Policy, Communications and Governance or the Policy and Information Manager. Unit managers have been asked to identify areas where teams have concerns about data protection and specific guidance is being designed around this.
- 2.7 Guidance or 'Need to Knows' have been developed and are available to staff and Members on the Council's intranet site.
- 2.8 The latest edition of Borough Insight contains information for local residents on changes and what it means for them both in terms of their rights and the service they can expect to receive from the Council. The website will be updated for residents to coincide with Borough Insight's delivery.

Information Lifecycle Audits

- 2.9 Information Lifecycle Audits is the tool officers are using to map the Council's processes and determine how those processes manage personal information. They are very intensive taking between 20-40 minutes per process. We are just over half way through the audits with 25 now at various stages between scoping, live and action planning. The Maidstone only high risk areas are all at action planning stage. The MKS services are being audited initially by external consultants at Tunbridge Wells or Swale and the information passed to Maidstone officers. Following this, officers will follow up to complete the audit.

Information Sharing

- 2.10 We are currently working to develop a clear map of all sharing agreements, shared standard operating procedures, informal sharing agreements that exist across the authority. Whilst these arrangements can be very helpful for supporting local residents, we do need to ensure they are being used appropriately and are compliant.
- 2.11 The Council was fortunate enough to be invited to join a small working group that is updating the Kent and Medway Information Sharing Agreement. This work is underway and a completed update is expected by May with training for key staff to follow after.

Partners and Suppliers

- 2.12 All existing contracts which involve the processing of personal information on behalf of Maidstone Borough Council need to be reviewed, to ensure that the suppliers are compliant with the new legislation and to ensure that our expectations are met. Work has begun identifying all of these contracts and informal conversations started with some suppliers.
- 2.13 A joint working group has been set up with representatives from Maidstone, Swale and Tunbridge Wells' procurement teams and MKS legal, to ensure that all the contracts are amended.

- 2.14 The working group will also be developing standard information which will be used in the tender process and in all new contracts.
- 2.15 The Policy and Information team has been providing support to services by facilitating early informal discussions with suppliers. Setting out what we expect them to provide to demonstrate their organisations' compliance or providing a GDPR overview where knowledge is low. This has been additional work that wasn't anticipated but the additional work is worth undertaking at this stage as a lack of compliance by suppliers or partners may result in the Council having to make new arrangements in the future.

Documentation

- 2.16 The new legislation requires organisations to have much more detailed documentation, than is required under the current legislation and this work is in progress.
- 2.17 A Record of Processing Activities (ROPA); a comprehensive list of Council activities that process personal data, with a detailed range of information such as the retention period, the legitimate condition for processing and any sharing arrangements. This piece of work is planned to be completed by the end of April 2018, using the information we have gathered from the information lifecycle audits.
- 2.18 Privacy Notices; a notification at the point of collecting information which explains the customer their rights and how the Council will be managing this information. This piece of work is being done with Tunbridge Wells to maximise resources.

3. Information Commissioners Office Updates

- 3.1 The ICO have been very clear that, organisations do not have to be fully compliant by 25 May 2018. What the Council must be able to do and will be able to do is demonstrate that there is a clear plan and preparations in place which demonstrate the following;
- Organisational commitment to GDPR
 - Understanding the information you have
 - Implement accountability measures (e.g. appointing a data protection officer if necessary)
 - Ensuring appropriate security of data
 - Training Staff
- 3.2 The ICO have confirmed that it will not be mandatory to report all data breaches but it will be mandatory to report a personal data breach under the GDPR if it's likely to result in a risk to people's rights and freedoms. There is work underway to develop a clear process and impact assessment to demonstrate how to demonstrate we have complied with this.
- 3.3 The fees for registering with the ICO are likely to go up significantly from £500 per year to £2900 as the Council will be in the highest fee band.

4. RISK

4.1 Information management has already been identified as a corporate risk for the Council. The plan at Appendix 1 sets out project risks and steps to mitigate these.

5. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The introduction of the General Data Protection Regulation will affect both Council priorities as it will impact on the management of all information collected, used and stored for all Council activities unless legislation states otherwise.	Angela Woodhouse Head of Policy Communications and Governance
Risk Management	Not preparing or sufficiently preparing for the changes introduced under GDPR leaves the Council open to significant risk. Should the Council not prepare for GDPR and the ICO investigates, the Council could be at risk of a fine.	Angela Woodhouse Head of Policy Communications and Governance
Financial	Additional funding has already been made available for training and the shared support resource.	Section 151 Officer & Finance Team
Staffing	The preparation is having a significant impact on officers' time. The Policy and Information Team is estimated have at least 1.5 FTE excluding a temporary resource in place. There is also a substantial impact within the Procurement team, ICT team, and service managers are expressing concerns as they begin to process changes and recommendations	Angela Woodhouse Head of Policy Communications and Governance

	implemented.	
Legal	The Council has legal obligations under GDPR and the actions outlined in this report are preparations to ensure that the Council is compliant with these obligations.	Legal Team
Privacy and Data Protection	The Council has legal obligations under GDPR and the actions outlined in this report are preparations to ensure that the Council is compliant with these obligations.	Legal Team
Equalities	Whilst auditing services there may be a need to change processes, EQIA may need to be completed at that time. Equalities data is personal data and can be sensitive personal data, audits will need to consider whether this data is required, alongside consideration as to whether collected the data will ensure that services are delivered equably.	Angela Woodhouse Head of Policy Communications and Governance
Crime and Disorder	Services operating within this area will be audited alongside other services.	Angela Woodhouse Head of Policy Communications and Governance
Procurement	In order to ensure compliance with GDPR the processes around procurement will need to be updated. All existing contracts which process personal data also have to be reviewed, this is a substantial amount of work which has been considered and is being undertaken as part of shared arrangement with the other Mid Kent authorities.	Angela Woodhouse Head of Policy Communications and Governance

6. REPORT APPENDICES

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

- Appendix 1: Risk Register
-

7. BACKGROUND PAPERS

- 7.1 Audit Governance and Standards Committee Report Update General Data Protection Regulations 20 November 2017
- 7.2 Information Commissioners Office guide to the General Data Protection Regulations <https://ico.org.uk/for-organisations/guide-to-the-general-data-protection-regulation-gdpr/>

GDPR Risk Register												
Risk (short title)	Risk (full description)	Risk Owner	Key Existing Controls	Inherent rating			Treat ?	Controls planned	Mitigated rating			Further Action
				Impact	L'hoo d	Grade			Impact	L'hoo d	Grade	
Suppliers can't demonstrate compliance	Suppliers can't demonstrate compliance to the organisation's satisfaction meaning that any processing of data is potentially in breach of forthcoming legislation	TBC	Information lifecycle audits identifying areas of concern, ICT supporting major ICT concerns, services holding informal conversations with suppliers with policy and information managers support. Procurement working group in place.	4	3	12	Y	Areas of concern highlighted to DPO and raised at Information Governance Group and CLT. Amendments put in place to safeguard personal data where possible	3	3	9	
Cost of getting systems to comply	Where systems aren't compliant providers may request additional payments to make the	TBC	Information lifecycle audits identifying areas of concern, ICT supporting major ICT concerns,	3	4	12	y	Policy and Information Manager to start a record of costs and status. DPO to	3	2	6	

	system compliant. This cost has not been accounted for		services holding informal conversations with suppliers. Procurement working group in place.						send guidance to managers to ensure that payments are not made without prior discussion with DPO.			
Staff resources impact of complying with recommendations from audits	As a result of recommendations from the IL audits, services are identifying that the work required in order for the information to become compliant is significant, and there is a lack of capacity	TBC	Working with services to develop reasonable timescales to deliver recommendations. The council doesn't have to be compliant by 25 May.	3	3	9	N					Getting corporate message sent round recognising the impact and thanking staff. Ensuring that the services have a clear plan in place and that these are followed up

Appendix 1

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<p>Increased requests from customers requesting compliance</p>	<p>Resources aren't in place to deal with an increase in Customers and partners challenging the council to meet their new rights</p>	<p>TBC</p>	<p>Need To Know guidance on the intranet. Changing website to provide guidance (march) hopefully to reduce requests. Further staff training in development</p>	<p>2</p>	<p>4</p>	<p>8</p>	<p>N</p>					
<p>Shared service arrangements</p>	<p>Shared Service arrangements need to be reviewed for</p>	<p>TBC</p>	<p>Currently working with MKS partners on GDPR preparations</p>	<p>5</p>	<p>3</p>	<p>15</p>	<p>Y</p>		<p>5</p>	<p>3</p>	<p>15</p>	<p>Develop working group, consider whether external support is required to ensure arrangements and compliant</p>
<p>Information sharing agreements not being in place</p>	<p>Information Sharing agreements exist across the council that are important to enable customers to be supported and services</p>	<p>TBC</p>	<p>The Kent and Medway Sharing Agreement is currently being updated by a kent working group. Work is underway to identify all other sharing</p>	<p>4</p>	<p>2</p>	<p>8</p>	<p>N</p>					

Appendix 1

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	delivered effectively		agreements and the working group will help support amendments.										
The Data Protection bill is not finalised	The Data Protection Bill is not yet finalised and there may be significant amendments not yet accounted for.	TBC	The Policy and Information Team are keeping a watching brief on any changes.	3	2	6	N						
DPO conflict role	Conflict of interest was identified for the DPO role. DPO cannot have responsibility for any service where they they are responsible for deciding method of data collection, unless there are arrangements and procedures put	TBC	Agreed Customer Service reports direct to SIRO on means of processing information and Customer Service Manager JD updated.	3	2	6	N						

Appendix 1

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	in place or it is an ancillary service										
Lack of Capacity in ICT, Legal and procurement	Due to the large number of changes to systems and suppliers there is the potential for substantial extra work for ICT Legal and procurement, but particularly the shared services.	TBC	MKS authorities are working in collaboration on GDPR projects and are identifying where there are potential impacts in workloads, and offering support to help prioritise. ICT work is going through commissioning Groups	3	3	9	Y				Ask services to report to DPOs and information governance group capacity so changes can be monitored

Agenda Item 13

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

19 March 2018

Internal Audit & Assurance Plan 2018/19

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service/Lead Director	Mark Green; Director of Finance & Business Improvement Steve McGinnes; Mid Kent Services Director
Lead Officer and Report Author	Rich Clarke; Head of Audit Partnership
Classification	Public
Wards affected	All

Executive Summary

The report sets out the work proposed by Mid Kent Audit towards delivering a Head of Audit Opinion for 2018/19 and supporting the Council's internal control, risk management and governance.

This report makes the following recommendations to this Committee:

1. **Approve** the Internal Audit & Assurance Plan for 2018/19
2. **Note** the Head of Audit Partnership's view that the Partnership currently has sufficient resources to deliver the plan and a robust Head of Audit Opinion.
3. **Note** the Head of Audit Partnership's assurance that the plan is compiled independently and without inappropriate influence from management.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	19 March 2018

Internal Audit & Assurance Plan 2018/19

1. INTRODUCTION AND BACKGROUND

- 1.1 The Public Sector Internal Audit Standards (the "Standards") require an audit service to produce and publish a risk based plan, at least annually, for approval by Members. The plan must consider input from senior management and Members.
 - 1.2 In Mid Kent Audit, planning is a continuous activity but we began the programme working towards the 2018/19 plan document in late 2017. The paper here sets out the plan and project list intended for 2018/19 for Member approval.
 - 1.3 To note, audit plans must be at least annual but can have shorter timescales if needed. Also, the Standards explicitly direct that Head of Audit must keep the plan flexible and responsive to emerging and changing risks across the year.
-

2. AVAILABLE OPTIONS

- 2.1 The appendix sets out the proposed plan for 2018/19, including background details on how we compiled the plan and how we propose to manage its delivery.
- 2.2 We confirm to Members that, although the plan has undergone broad consultation with management, it is compiled independently and without being subject to inappropriate influence.
- 2.3 The Standards mandate compiling a risk based plan for management comments and Member approval. Although by convention that plan is presented annually around the start of the financial year, the Standards do not specifically require that action. The Council could, potentially, move to a shorter planning cycle which would allow more flexibility for responding to risk. There are other authorities that take a similar approach (Suffolk CC, to name one example).
- 2.4 However, that move would strike against a practice considered to work well, and one which allows a degree of certainty to resource requirements that helps ensure stability in a service spread across four authorities.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 The Standards do not mandate any specific work for the plan, so its content is entirely at the discretion of the internal audit provider (subject to the comments of management and approval of Members) and have an enormous range of possibilities with respect to the areas that could be examined. The attached document represents the currently proposed responses to the risks assessed at the Council.

4. RISK

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

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 We circulated an earlier, longer, draft to Heads of Service and Directors across the four authorities (and including Heads of Shared Services) in January ahead of individual meetings to discuss proposed projects in their areas. We also shared the proposed project list with the Council's Wider Leadership Team in February. Those meetings have now taken place and the attached represents an adaptation of the original draft reflecting comments received.
- 5.2 The overall resource allocation between the partners is consistent with the collaboration agreement and discussed with the Shared Service Board.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 Following Member approval of the plan we will communicate with Audit Sponsors and Heads of Service to begin the detailed work in delivery. We will provide an update to this Committee on progress part way through the year as well as, potentially, ad hoc updates of any significant matters arising.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims as set out in section 3 by supporting good governance.	Rich Clarke Head of Audit Partnership 6 March 2018
Financial	The proposals set out in the recommendation are all within already approved budgetary headings and so need no new funding for implementation.	Section 151 Officer & Finance Team
Staffing	We will deliver the recommendations with our current staffing.	Rich Clarke Head of Audit Partnership 6 March 2018
Legal	The Council is required by Accounts & Audit Regulations to operate an internal audit service, including agreeing a plan at least annually. Therefore the Council must approve an internal audit plan to maintain regulatory conformance.	
Privacy and Data Protection	The audit service uses data already held by the Council and so does not collect any additional personal data. The audit service handles the data in line with Council policies.	
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	
Crime and Disorder	The recommendation will have a negative impact on Crime and Disorder. The Community Safety Team have been consulted and mitigation has been proposed	

Issue	Implications	Sign-off
Procurement	On accepting the recommendations, the Council will then follow procurement exercises for specialist audit support, as set out in the plan. We will complete those exercises in line with financial procedure rules.	

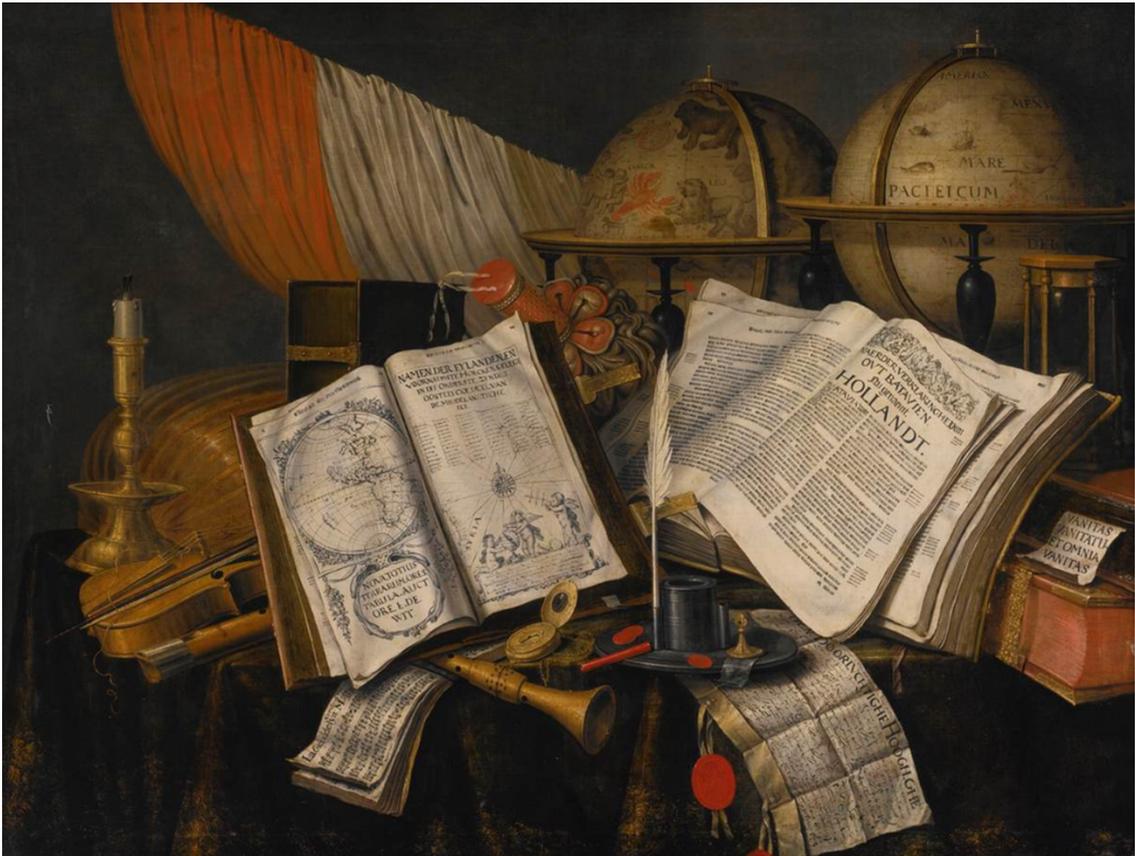
8. REPORT APPENDICES

- Appendix 1: Internal Audit & Assurance Plan 2018/19
-

9. BACKGROUND PAPERS

The appendix includes reference to the Public Sector Internal Audit Standards (full document [at this link](#)). It also draws on information from 2017/18 Audit Plans published across the local government sector, each available through the committee papers pages of individual authorities. Further background papers, including detailed resource calculations, risk assessments and notes from consultation meetings with officers and Members, can be made available on request.

Internal Audit & Assurance Plan 2018/19



Maidstone Borough Council



MID KENT AUDIT

Introduction

1. We provide an independent and objective assurance and consulting service designed to add value to and improve the Council's work. We help the Council achieve its objectives by bringing a systematic and disciplined approach to evaluate and improve effectiveness of risk management, control and governance.
2. We work within a statutory framework drawn from the Accounts and Audit Regulations 2015 and the [Public Sector Internal Audit Standards](#) (the "Standards"). In 2015 the Institute of Internal Audit assessed us as working in full conformance with the Standards. We have kept full conformance since then, including through the major update to the Standards in 2017.
3. We also work to an [Audit Charter](#) agreed at each partner authority. The *Charter* sets out the local context for audit, including independence safeguards. At this Council, the Audit, Governance & Standards Committee approved the Charter in 2016 and it remains in place.
4. The Standards set out demands on the Head of Audit Partnership for compiling and presenting a document to describe planned work for the year ahead. The plan, presented for Member approval, must set out:
 - Internal audit's evaluation of and response to the risks facing the organisation.
 - How we consult with senior management and others.
 - How we have considered whether we have suitable resources to address the risks we identify.
 - How we will effectively use those resources to complete the plan.
5. The Plan can include assurance and non-assurance rated engagements. This means we can accept consultancy work where this is the best way to support the Council. We set out our considerations for accepting consultancy engagements in the *Audit Charter*.
6. We must also clarify that our audit plan cannot address all risks across the Council and represents our best use of inevitably limited resources. In approving the plan, the Committee recognises this limit. We will keep the Committee abreast of any changes in our assessment of need as we oversee the risks posed to the Council. In particular we will undertake a full evaluation of need during each annual planning round.

MID KENT AUDIT

Risk Assessments

7. The Standards direct us to begin our planning with a risk assessment. This assessment must consider risks to the Council from global changes as well as those recognised within its own risk management. We must also keep that risk assessment current. This plan represents our appraisal now, but we will continue to reflect and consider responses as risks and priorities may change across the year. We will report a specific update to Members midway through the year. We may also consult the Committee (or its Chairman) on other significant changes if the need arises.

Global and Sector Risks

8. In considering global and sector risks we draw on various sources. This includes updates provided by relevant professional bodies, such as the IIA and CIPFA. We also consult with colleagues both direct through groups such as London and Kent Audit Groups and through review of all other published audit plans in the South East.
9. These sources give us insight into both the key issues facing local government and how audit teams respond. To show our consideration of these global risks we've picked the issues below from the [IIA Hot Topics in Internal Audit 2018](#).



The Risk

May 2018 will see the largest expansion of data protection law for 20 years. The General Data Protection Regulations (GDPR) place new limits on using and sharing personal information, including new requirements on informed consent. The maximum penalty for breach also increases significantly, with [one report](#) estimating the £400k fine for TalkTalk in 2016 would be closer to £60m as a GDPR breach.

Maidstone Context

The Council manages significant volumes of personal data while delivering services. It will need to make sure it has a clear understanding of where and how it holds, manages and processes data. The Council will also need a clear method for prompt breach reporting.

MID KENT AUDIT

Mid Kent Audit Response – GDPR

We have worked through 2017/18 as a contributor to the Council's *Information Management Group*. This Group has overseen the GDPR implementation and we've brought information from our findings, wider research and responses from other partners.

On our 2018/19 plan we propose a 4-way review to look across all four partner authorities around 6-9 months after implementation. Rather than seeking to provide a rating, we will instead look at the common challenges faced by the authorities and effectiveness of responses. We will aim to include a full authority-specific assurance rated review in our 2019/20 plan.



CYBERSECURITY

The Risk

The Wannacry cryptoworm attack that hit more than a third of NHS Trusts in May 2017 brought into focus vulnerability from malign online actors. Although there was no direct financial loss, the NHS estimated it cancelled nearly 7,000 appointments as a direct result. A National Audit Office report also later highlighted various IT control failures that could have stopped or limited the attack.

Maidstone Context

The Council actively encourages residents to use electronic communications and so sees more and more of its work online. Mid Kent ICT currently holds ISO certification, Public Sector Network Code of Connections (CoCo) compliance and successfully repels dozens of attempted attacks each day. However, it is clear the potential disruption of a successful attack would be significant, including on the Council's ability to maintain communications and make payments.

Mid Kent Audit Response

We are aware that increasingly the complexity of controls demands specialist audit skills to provide assurance on their efficacy. Longer term, we will seek to grow those skills in-house. But for the 2018/19 plan we have a proposed project that will call on specific IT audit expertise through the competitive rates available to us as a partner in local and regional framework contracts.

MID KENT AUDIT



POLITICAL UNCERTAINTY

The Risk

In themselves, Brexit and the UK Government's re-examination of local authority funding are not necessarily risks. But they could affect the Council's funding, powers and responsibilities as well as the broader economy. However, the key phrase there is "could". While that doubt exists, organisations will need to be as agile and flexible as possible in their planning.

Maidstone Context

The Council has already taken some opportunities arising from Government reviews, such as joining the Kent & Medway Business Rates Retention Pilot. However, the success of such pilots and much of the Council's other plans depends on the wider economy.

Mid Kent Audit Response

Owing to this uncertainty, we do not have specific projects on the 2018/19 plan looking at Brexit and other regulatory changes (but we do have the issue on our radar, see appendix I). Instead, we will continue to focus efforts on supporting the Council in keeping an effective risk register that will allow it to properly identify risks and opportunities as they come into focus.



VENDOR RISK

The Risk

The recent collapse into administration of Carillion and profit warnings at Capita highlights the extent to which public services have become increasingly reliant on private delivery. These create third party risks where organisations learn they have not transferred the risk as well as the service. Sound and continuing diligence and well-managed supplier relationships are crucial to ensuring success.

MID KENT AUDIT

Maidstone Context: Vendor Risk

The Council runs significant parts of its service through third parties. For example Leisure (with Serco), Waste (with Biffa) and the Theatre (with Parkwood). We must also consider partnerships, such as Mid Kent Services, where the Council works with other organisations to deliver services.

Mid Kent Audit Response: Vendor Risk

Our audit universe (see Appendix I) includes period review of all the Council's major contractual relationships. Also, in 2018/19, we are embarking on a series of mid-term reviews examining conformance with collaboration agreements for shared services.



WORKFORCES: PLANNING FOR THE FUTURE

The Risk

Organisations must think more strategically about their workforce planning. Driven by financial restraints, changing demographics and increased automation and use of technology, organisations must consider how they can effectively hold the skills and experience they need to deliver their objectives.

Maidstone Context:

The Council continues to rationalise workforce in line with Medium Term Financial Plans and its workforce strategy. It will need to manage institutional memory and keep essential skills.

Mid Kent Audit Response:

We recognise the Head of Shared Human Resources is new in post and so have put back a full assurance rated review into workforce planning into 2019/20. Instead, in 2018/19, we will complete a Mid Term Review of the HR service. This work is closer to consultancy and about reviewing the collaboration agreement and assessing how the service supports each partner authority.

MID KENT AUDIT



EVOLVING THE INTERNAL AUDIT

The Risk

The new Public Sector Internal Audit Standards in April 2017 placed greater emphasis on the role of internal audit in understanding and providing assurance against a wide range of corporate risks. The traditional view of audit as a branch of accounting is disappearing under standards that demand more familiarity with governance, analytics and effective communication of audit findings to provide valuable business insight.

Mid Kent Audit Response

Our Quality and Improvement planning considers the skills we need now and in the future, including the IT audit specialism noted above. We are also increasingly looking at ways to efficiently expand the range, scope and effectiveness of our coverage. To that end we are looking to get more up-to-date audit software, which will support efforts to create standard testing templates, support audit work and improve efficiency, monitoring and reporting.

Local Risk Review

10. The Council keeps a corporate register describing the most significant risks it faces. Risks on the corporate register align direct to the Strategic Plan and have a more strategic outlook.
11. Our audit planning considers these issues to ensure we provide risk-based assurance to the Council. While not the sole plan driver, we aim to ensure our audit projects and wider work includes coverage of the risks featured on the corporate register.
12. The table on the following page shows each of the risks on the corporate register, with relevant audit work either recently completed or planned over the next two years.

MID KENT AUDIT

Risk Register Item	Residual Risk Rating		Relevant Planned Audit Work
	Impact x Likelihood	Grade	
ICT Systems Failure / Security	4 x 4	16 (Red)	<u>Audit Projects</u> ICT Networks (17/18) Cyber Security (18/19) Computer Use Policies (19/20) <u>Other Work</u> Information Management Group Incident investigation
Legal Compliance / Breaches (e.g. GDPR)	5 x 3	15 (Red)	<u>Audit Projects</u> GDPR Review (18/19) Freedom of Information (19/20) <u>Other Work</u> Information Management Group Data Protection Audits
Major Project Failure	4 x 3	12 (Red)	<u>Audit Projects</u> Subsidiary Company Governance (17/18) Capital Purchases & Disposals (19/20) Project Management (19/20) <u>Other Work</u> Corporate Governance Group
Housing Pressures Continue to Increase	4 x 3	12 (Red)	<u>Audit Projects</u> Homelessness (17/18) Homelessness Reduction Act (18/19) Housing Allocations (18/19)
Delay in Local Plan Adoption	4 x 3	12 (Red)	<u>Other Work</u> Planning Risk Review Local Plan Project Evaluation Support
Financial Restriction	4 x 3	12 (Red)	<u>Audit Projects</u> Financial Management (17/18) Budget Management (18/19) NNDR (18/19)
Poor Partner Relationships	3 x 3	9 (Amber)	<u>Audit Projects</u> Mid Term Service Reviews: Audit (17/18), IT, Revenues & Benefits, HR (18/19), Legal, Planning Support (19/20)
Breakdown of Governance Controls	4 x 2	8 (Amber)	<u>Audit Projects</u> Corporate Governance (17/18) Public Consultations (18/19) <u>Other Work</u> Corporate Governance Group

MID KENT AUDIT

Risk Register Item	Residual Risk Rating		Relevant Planned Audit Work
	Impact x Likelihood	Grade	
Workforce Capacity & Skills	2 x 2	4 (Green)	<u>Audit Projects</u> Absence Management (18/19) Recruitment (18/19) Workforce Planning (19/20)

13. We co-ordinate and provide risk management support for the Council. This work includes regular liaison with risk owners to co-ordinate and report progress through Corporate Leadership Team and the Policy & Resources Committee. Therefore, for all risks, we will continue to support risk owners and regularly report progress.

Audit Risk Review and Consultation

14. We then consider all the auditable parts of the Council (the “audit universe”) against our own risk evaluation criteria. These consider:



Finance Risk: The value of funds flowing through the service. High value and high volume services (such as Council Tax) represent a higher risk than low value services with regular and predictable costs and income.



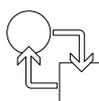
Priority Risk: The strategic importance of the service in delivering Council priorities. For example waste services will be higher risk owing to the direct link with the Council’s objective to “provide a clean and safe environment”.



Fraud Risk: The susceptibility of the service to fraud loss. High volume services that deal direct with the public and handle cash, such as licensing for example, are higher risk.



Oversight Risk: Considering where other agencies have an interest in regulating and inspecting the service. For example, Mid Kent Legal Services receive regular inspections from the Law Society to keep Lexcel accreditation and so have relatively low risk.



Change Risk: Consider the extent of change the service has been, or will be, undergoing. This might be voluntary, such as a restructure or imposed such as new legislation.

MID KENT AUDIT



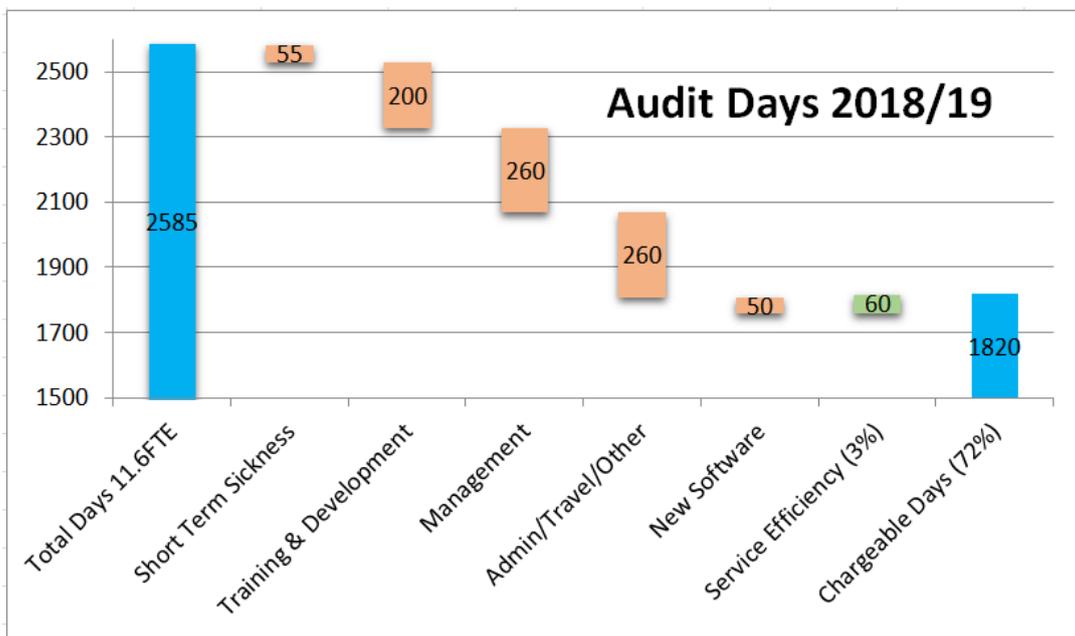
Audit Knowledge: What do we know about the service? This considers not just our last formal review, but any other information we have gathered from, for example, following up agreed actions. We also consider the currency of our knowledge, with an aim to conduct a full review in each service at least every five years if possible.

15. The results of these various risk assessments provide a provisional audit plan. We then take this provision plan out to consultation. We meet every Head of Service, Director and the Chief Executive to get their perspective on our assessment and give us updates on their sections.
16. Having gained a perspective on the key issues for audit attention in the coming year we then consider the quantity and quality of our resources.

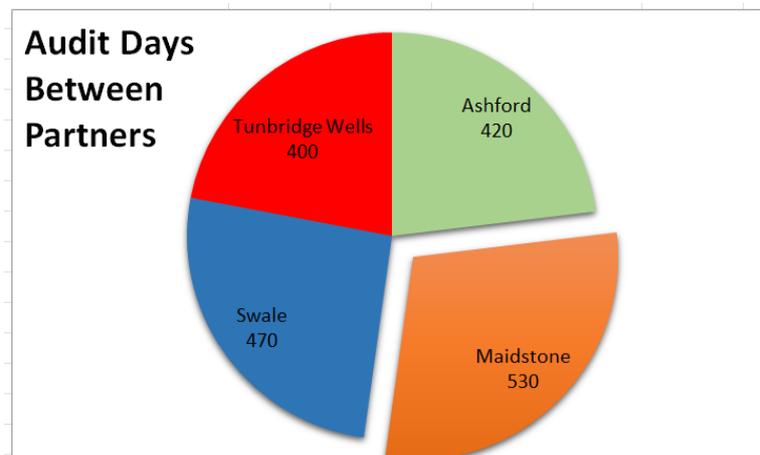
MID KENT AUDIT

Resources

17. The audit team contains 11.6 FTE plus a 0.6 FTE administrator. To calculate the total amount of resources available we take the full time available (less contractual leave and public holidays) and subtract various categories of non-audit time, such as training. Then we add back known positive changes, which include our annual aim to make the service at least 3% more efficient each year by refining our working practice. We set out that calculation in the chart below.

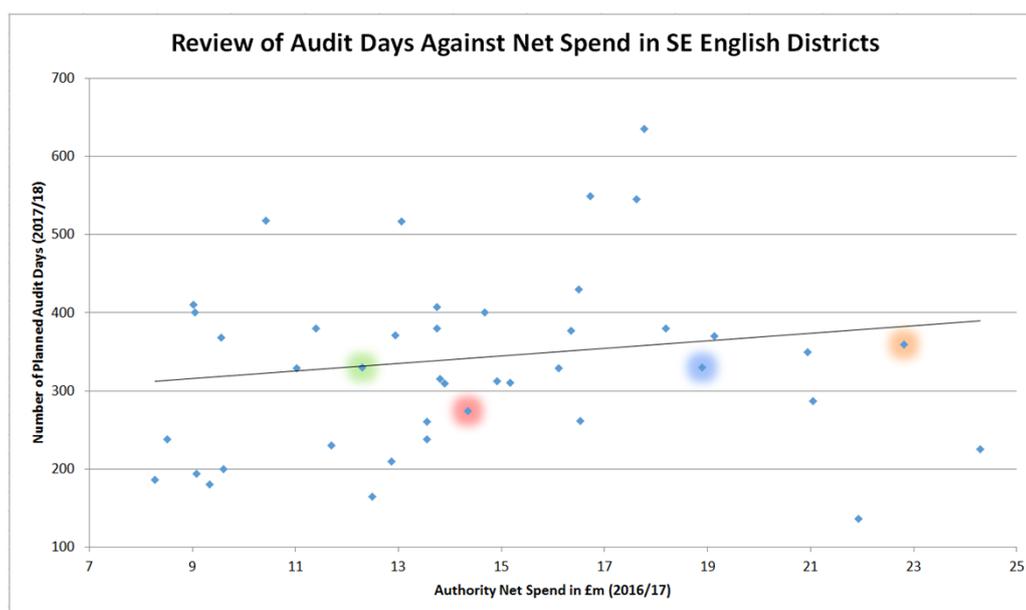


18. The result is 1,820 chargeable days, meaning time we can put towards completion of our agreed audit plans. This is essentially the same as in 2017/18 and divides between the authority partners in the proportions set out in our collaboration agreement:



MID KENT AUDIT

19. Audit Standards demand we assess whether the resources available – in both quantity and capability – can fulfil our responsibilities. In that assessment we must consider:
- Whether we had sufficient resource to complete our prior year plan.
 - How the size and complexity of the organisation has changed.
 - How the organisation’s risk appetite and profile have changed.
 - How the organisation’s control environment has changed, including how it has responded to our audit findings.
 - Whether there have been significant changes to professional standards.
20. Based solely on those internal reasons, we believe we have enough resource to deliver the 2018/19 plan. There is no precise guidance on overall adequacy of internal audit resource. Besides the reasons above we also analyse other SE English District Councils to consider a ‘typical’ volume of audit coverage. The graph below presents that survey and a ‘best fit’ line (noting that we have excluded some extreme outliers on the higher end). We highlight the Mid Kent partner authorities.



21. We must also consider ability of the audit team. Appendix II sets out the significant range of skills, qualifications and experience we have within the audit team.
22. As noted in the risk assessment, we are looking to increase our means on technical IT audit. For 2018/19 we aim to supplement the team with technical support accessed at competitive market rates through new memberships of Framework agreements with audit firms managed by LB Croydon and Kent CC.

MID KENT AUDIT

Proposed Audit & Assurance Work 2018/19

23. Our audit project work comes in two distinct approaches; those that lead to assurance ratings and those that do not. We usually provide a rating as shorthand to describe our findings and the assurance that we can offer. See Appendix IV for the definitions and different levels. However, we recognise circumstances where our work aims principally at supporting work in progress, or providing advice where an assurance rating is not right. We complete full reports for each type and will provide summaries in our reporting to Members.
24. We also undertake various other review and advice tasks over the year. However, we usually do not separately report work that takes under 5 days to complete or does not result in a single distinct report. For example, our work supporting the Council's risk management.
25. In the tables below we set out our planned work for 2018/19. We also provide our planning objectives for each project, setting out in more detail the intended scope for each review. However, we will agree a precise scope with the officer *Audit Sponsor* when we come to undertake the work. See the next section of this report for information on how we complete detailed planning on audit projects and work towards their completion.

Proposed Audit & Assurance Project Work 2018/19	380 days
DIRECTOR OF FINANCE & BUSINESS IMPROVEMENT	
Assurance Rated Projects	
Public Consultations	
<ul style="list-style-type: none"> • To assess guidance provided to assist undertaking public consultations against suitable evaluation criteria (for example, the Sedley principles). • To review a sample of consultations for compliance with established criteria 	
Budgetary Control	
<ul style="list-style-type: none"> • To consider effectiveness and appropriateness of the Council's approach to monitoring and controlling budgets. • To review compliance with budget control rules. • To review compliance with virement rules. 	
Accounts Payable	
<ul style="list-style-type: none"> • To review design and effectiveness of key controls within the accounts payable system. 	
Transformation	
<ul style="list-style-type: none"> • To review the operation and effectiveness of service transformation. • To review project management of digital transformation work. 	
Property Management	
<ul style="list-style-type: none"> • To review controls for managing income received from property. 	

MID KENT AUDIT

Non-Assurance Rated Projects

General Data Protection Regulations

- To consider across the four partner authorities varying challenges and approaches to carrying out GDPR including areas of non-compliance.
- The aim of our review will be to identify and share best practice and successful approaches. We will undertake an assurance rated review at each authority in 2019/20.
- (We will complete this review six to nine months after the go live date of GDPR in May 2018)

Procurement Fraud Risk Review

- To undertake a detailed review of a sample of small to mid-level suppliers. Using open source information (for instance, Companies House data) we will consider the presence of risk signals that may warrant further investigation.
- Risk signals might include the part of the supplier's work delivered to the Council, relationships between the supplier and Members and officers (declared and undeclared) and public reviews from other customers.

National Fraud Initiative

- To manage the Council's link with the Cabinet Office on NFI matters and act as a single liaison point.
- To ensure the Council gives suitable information to residents on the collection and use of data for NFI purposes.
- To examine matches outside the Revenues Service. The Mid Kent Revenues Compliance Team examines revenues matches.

DIRECTOR OF REGENERATION & PLACE

Assurance Rated Projects

Waste Contract

- To review contract management controls.
(We will conduct this review across Swale, Maidstone and Ashford as partners in the contract).

Cobtree Trust

- To review how the Council manages and discharges its responsibilities as corporate trustee
- (Note that this review will focus on Maidstone BC, the Trust is a separate entity that manages its own audit arrangements to review controls operating within the Trust).

Museum

- To review financial controls operating at the museum for collecting income (café, shop, events and exhibitions, room hire)

Markets

- To review operation of the market against business plans, including financial controls.

Commercial Waste

- To review design and operation of controls around invoicing, billing and collection.
- To review cost allocation and management, including overhead allocation.

Environmental Enforcement

- To review operation of in-house service (timed for around 12 months into 18 month trial).
- To review controls on issue and collection of fixed penalty notices.

Housing Allocations

- To review controls around direct lets to homeless households.

MID KENT AUDIT

Assurance Rated Projects (continued)

Building Control

- To review design and operation of controls for setting and collecting income.
- To review administration and documentation of discretionary fees.

Planning Enforcement

- To review process for creating, documenting and executing planning control notices.

Air Quality

- To review controls for achieving and reporting progress on the low emissions strategy.
- To review data quality on collection and reporting of air quality data.

Licensing Administration

- To review controls for appropriate recording and issue of licenses.
- To review controls for collecting and banking licensing income within the licensing partnership, including allocating to partners.

Non-Assurance Rated Projects

Homelessness Reduction Act

- To consider across the four partner authorities varying challenges and approaches to the Homelessness Reduction Act.
- The aim of our review will be to identify and share best practice and successful approaches.

Planning Risk Review

- To review effectiveness of mitigating actions proposed for planning risks.

Local Plan Project Support

- To contribute to post-project evaluation of the Council's drawing up its local plan.

MID KENT SERVICES DIRECTOR

Assurance Rated Projects

Cyber Security

- Using externally gained IT audit expertise, to consider effectiveness of the Council's measures to mitigate the risk and impact of cyber attack.

IT Technical Support

- To review controls for overseeing and reporting performance of the IT Service Desk.

Absence Management

- To consider compliance with the Council's absence management policy.
- To review controls for overseeing and reporting interventions aimed at reducing levels of sickness absence within the Council.

Recruitment

- To review compliance with the Council's recruitment policy.
- To assess financial and buying controls for recruitment-related spending.
- To review compliance with policies around recruitment and retention of contractors

Revenues & Benefits Compliance Team

- To review controls for collecting and reporting performance data of the Compliance Team.
- To consider compliance with relevant laws and procedures, including use and handling of personal data.
- To review controls for monitoring delivery of the work programme.

MID KENT AUDIT

Assurance Rated Projects (continued)

Council Tax Reduction Scheme

- To review operation of controls for ensuring compliance with the Council's scheme.
- To review use and reporting of the Council's power to levy fines for non-reporting of changes in circumstance.

Business Rates Liabilities & Reliefs

- To review operation of controls for ensuring proper application of reliefs.
- To document and review process for ensuring liabilities are recognised and recorded.

Declarations of Interest

- To review effectiveness of controls for ensuring declarations are made, reviewed and updated as required by the Council's policies.
- To assess use of declarations as appropriate in procurement decisions.
- (Will cover both officer and Member declarations).

Non-Assurance Rated Projects

Payroll Fraud Risk Review

- To examine expenses data for risk signals that may warrant further investigation. Risk signals might include large or unexplained claims, significant month-to-month variations or variable mileage claims between regular destinations.

Mid Kent Human Resources Service Mid Term Review

- To complete a Mid-Term review as mandated by the collaboration agreement, considering adherence to the agreement and general satisfaction with the service.

Mid Kent ICT Service Mid Term Review

- To complete a Mid-Term review as mandated by the collaboration agreement, considering adherence to the agreement and general satisfaction with the service.

Mid Kent Revenues & Benefits Mid Term Review

- To complete a Mid-Term review as mandated by the collaboration agreement, considering adherence to the agreement and general satisfaction with the service.

Proposed Audit & Assurance Non-Project Work 2018/19 120 days

Risk

- To continue supporting the Council in managing and reporting its strategic and operational risks.
- Focus in 2018/19 towards setting in risk management in Council procedures, and streamlining and 'automating' updates to risk information.

Counter Fraud

- To move forward with implementation of new Counter Fraud and Corruption and Whistleblowing Policies.
- To examine matters arising, including through Whistleblowing complaints.
- To create and provide e-Learning modules on key parts of supporting the Counter Fraud Culture, focusing first on Whistleblowing and Counter Bribery.
- To create and deliver Counter Bribery workshops to at-risk groups (including Members).

MID KENT AUDIT

Audit & Assurance Non-Project Work (continued)

Member Support

- To report audit progress to Committee and provide further advice and support as needed.
- To deliver, on request, Member briefings and training workshops on matters related to audit and governance.

Recommendation Follow Up

- To follow-up all agreed recommendations on time to ensure effective action to address our findings.
- To report on progress and provide further reporting where necessary.
- To provide support on implementation, including drawing on best practice from other authorities in the partnership.

Audit Planning

- To keep our audit planning under review, ensuring its continued relevance.
- To compile and report an audit plan for 2019/20.

Proposed Unallocated Contingency 2018/19

30 days

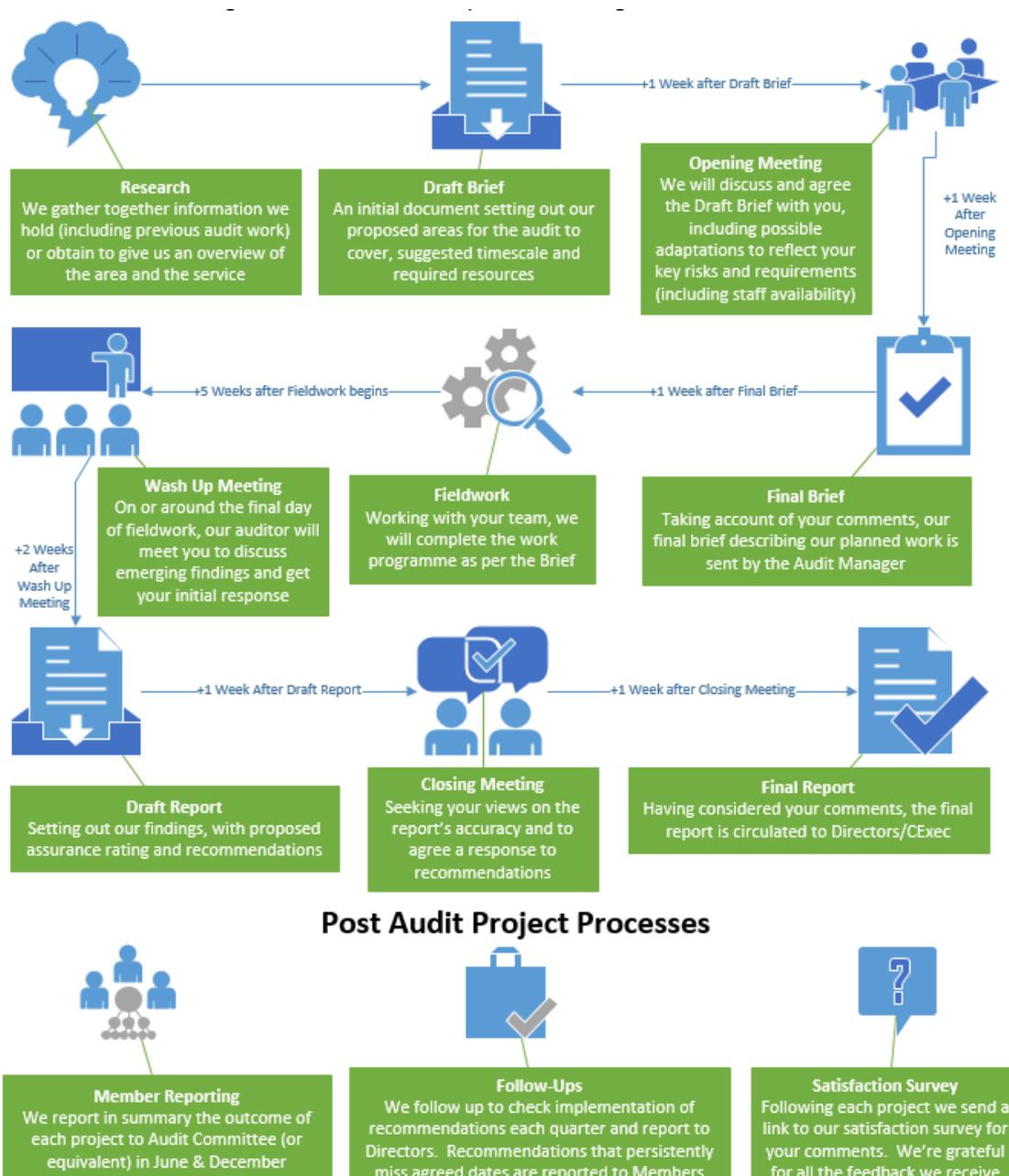
Consultancy

- We aim to keep around 10% of audit days as a consultancy fund to provide general and extra advice to the Council.
- Note that some of this 10% we have already allocated in response to officer requests for support projects (see project list above).
- This will include attendance and contribution to officer groups and expansions to audit scopes to cover particular concerns or interests.
- It also covers any investigative work we undertake. We are named in the Council's whistleblowing, data protection and computer use policies as a potential investigator of matters referred to us.

MID KENT AUDIT

Delivering the Audit & Assurance Plan

26. We work in full conformance with the Public Sector Internal Standards. This includes having an internal quality assessment approach comprising both specific review of individual projects and period 'cold review', looking back at completed work and taking forward learning to help us improve.
27. The diagram below sets out how we undertake a typical audit project. However, with each piece of work, we discuss and agree a specific workflow with an officer contact we call the *Audit Sponsor* (typically, the Head of Service).



MID KENT AUDIT

Overseeing Delivery

28. We will report progress on delivering the plan to this Committee part-way through the year. We are also part of the Mid Kent Services Directorate and overseen by a Shared Services Board, with Mark Green (Director of Finance & Business Improvement) as Maidstone's representative.
29. We also report each month on various performance indicators detailing our progress. We include a listing of those indicators, with descriptions, at appendix III to this plan.

Quality & Improvement Plan

30. Although in 2015 the IIA assessed us as fully conforming with the Standards, we have continued to challenge and update how we work. Milestones included a revision to our audit manual in 2016 (and updated after refreshed standards in 2017) and a restructure to add an administrator to the team and focus our auditors on chargeable work. Through these types of review we have kept our full conformance with the Standards and increased productive days by nearly 15% since 2015 without any more than inflationary budget increase.
31. For 2018/19 our focus will be on successful implementation of our new Audit Management Software. We decided in late 2017 to test the market, having used our current software in various forms since 2001. We tested various alternatives, all of which have new and better features and a cost saving.
32. Our evaluation continues but we will know the result before the Committee meets and working towards implementation. The precise benefits will depend on which product we select, but some of the benefits we looking for include:
 - Greater capacity for template and re-usable audit programmes to aid efficiency.
 - Improved reporting, especially on recommendation progress.
 - Better integration with and support for the Council's risk management work.
 - Greater ability to document and oversee the full scope of the audit universe.
 - Automation of performance information and thematic reporting.
33. In 2018/19 we will also continue our strong support for training and development within the audit team. During the year we will have five people furthering or completing (we hope) professional qualifications and we wish them every success. We will also continue supporting broader development, including in IT auditing, investigation support, data analytics and risk management.

MID KENT AUDIT

Appendix I: Audit Universe

The “Audit Universe” is our running record of all services at the Council we might examine. The list below shows its current arrangement including details of previous and planned future reviews. Note that future reviews past 2018/19 are provisional; we will undertake a fresh risk assessment each year.

Director	Head of Service	Auditable Areas	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22		
Director of Finance & Business Improvement	Head of Policy, Communications & Governance	Democratic Services	Member Development						Plan						
			Members' Allowances		Su		So	So				Plan			
			Communications		Cnc		So			Plan				Plan	
			Public Consultations								Plan				
			Complaints		Su					Plan					
			Corporate Governance				Cnc		NA	NA			Plan		
			Performance Management		Su					Wk					
			Information Governance	Data Protection		Cnc		Wk			Cnc	Plan	Plan		
				Freedom of Information							So				Plan
				Customer Services		Su		Cnc		St				Plan	
				Equalities			Su								Plan
			Elections	Su					So			Plan			
		Head of Finance	Core Financial Systems	Journals						So			Plan		
	Feeder Systems			Su		So				So			Plan		
	Accounts Receivable (Debtors)					Su		So			Plan		Plan		
	Accounts Payable (Creditors)				Hi	Su	So	So			So	Plan			
	Banking			Su			So						Plan		
	Cash Collection					Hi							Plan		
	Budget Management			Su	Su			So				Plan			
	Treasury Management					Su				So				Plan	
	Capital Accounting												Plan		
			Insurance	Hi							Plan				
			Corporate Credit Cards	Su			So						Plan		
	VAT Management					So							Plan		
	Subsidiary Company Governance								N/A		Plan				
	Financial Management								Plan						

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Director	Head of Service	Auditable Areas	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22		
Director of Finance & Business Improvement	Head of Commissioning & Business Improvement	Estate Management	Facilities Management					So					Plan		
			Property Income		Cnc	Su	Cnc				Plan				
			Capital Purchases & Disposals										Plan		
		Preparedness	Emergency Planning	Li			Wk				Plan				
			Business Continuity		Cnc	Cnc	Cnc	Wk						Plan	
			Procurement	Cnc	Cnc	Hi	Cnc	So			Wk				
		Contract Management									Plan			Plan	
			Project Management			Su		Cnc	Cnc					Plan	
		Transformation				Cnc						Plan			
Digital Services		Su									Plan				
Director of Regeneration & Place	Head of Regeneration & Economic Development	Museum	Museum Service	Li	Cnc							Plan			
			Artefact Control			Li									
		Leisure	Leisure Centre	Li	Cnc		So						Plan		
			Tourism		Li					Cnc				Plan	
			Cobtree										Plan		
			Parks & Cafes	Su						Wk					Plan
			Hazlitt Theatre	Su		Cnc				Wk				Plan	
		Community Halls & Events	Su											Plan	
		Regeneration & Economy	Economic Development												Plan
	Markets				Su						Plan				
	Business Terrace									So				Plan	
	Head of Planning & Development	Building Control	Building Control Fees	Su									Plan		
			Building Control Operations						Cnc	Cnc			Plan		
		Development Control	Development Control Operations		Su	Cnc								Plan	
			Development Control Fees												Plan
		Spatial & Strategic Planning	Planning Enforcement			Cnc						Plan			
			Strategic Planning									Plan			
Developer Contributions		Planning Code of Conduct		Su										Plan	
		Section 106 Income	Li						Wk				Plan		
Community Infrastructure Levy											Plan				
Heritage & Conservation Planning												Plan			

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Director	Head of Service	Auditable Areas	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22		
Director of Regeneration & Place	Head of Housing & Community Services	Environmental Health	Food Safety			Su				Plan					
			Air Quality								Plan				
			Enforcement										Plan		
		Housing	Affordable Housing											Plan	
			Housing Allocations	Su	Su							Plan			
			Temporary Accommodation					Wk						Plan	
			Homelessness				Li			Plan	Plan			Plan	
			Housing Grants			Su				So			Plan		
		Community Safety	Safety Partnerships		Su	Cnc			So			Plan			
			CCTV			Su							Plan		
	Licensing							So			Plan				
	Safeguarding						Wk					Plan			
	Public Health								So				Plan		
	Head of Environment & Public Realm	Street Scene				Cnc	Cnc			Plan				Plan	
		Bereavement Services	Cemetery	Li						Cnc					
			Crematorium	Li						So				Plan	
		Animal Enforcement	Animal Welfare							Plan					
			Pest Control											Plan	
		Waste Collection		Cnc	Hi		So					Plan			
		Commercial Waste Collection										Plan			
		Grounds Maintenance			Hi			So					Plan		
		Public Conveniences							So						
		Environmental Enforcement			Su				So			Plan			
	Vehicle Management							So					Plan		
	Parking Services Manager	On-Street & Car Parks	Parking Income			Su				Plan			Plan		
			Parking Enforcement	Cnc	Su			Cnc				Plan			
		Residents' Parking			Cnc					So					
		Park & Ride						Cnc		Wk				Plan	
	Mid Kent Services Director	Head of Audit Partnership	Risk Management							Plan					
			Corporate Counter Fraud				NA	NA						Plan	
Audit Service Review					NA	NA			NA			Plan			

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Director	Head of Service	Auditable Areas	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22		
Mid Kent Services Director	Head of HR Shared Service	Payroll	Payroll System			Cnc	Hi		St	St		Plan			
			Expenses	Su							Plan				
		HR Policy Compliance	General Policy Compliance							Cnc	Plan				
			Performance Management										Plan		
			Sickness Absence									Plan			
		Recruitment	Su			Su					Plan				
		Health & Safety		Cnc		Su			Wk				Plan		
	Learning & Development							So			Plan				
	Workforce Planning								Cnc		Plan				
	Head of ICT Shared Service	IT Development & Procurement					So			Cnc		Plan			
		IT Support						Wk			Plan				
		IT Security	Computer Use Policies	Su		Cnc	So				Cnc	Plan		Plan	
			Physical Security										Plan		
			Network Controls			Cnc				St	So	Plan			Plan
	Disaster Recovery & Backups		Cnc	Su						So			Plan		
	Head of Revenues & Benefits Shared Service	Business Rates/NNDR	NNDR System				Hi	Hi		St				Plan	
			NNDR Collection	Su										Plan	
			NNDR Valuation, Liability & Billing			Su						Plan			
		Council Tax	Council Tax System					So			Cnc		Plan		
			Council Tax Recovery				Su						Plan		
			Council Tax Collection	Su									Plan		
			Council Tax Reduction Scheme									Plan			Plan
		Housing Benefits	Housing Benefit System							So				Plan	
			Benefit Payments											Plan	
			Benefit Assessments			Cnc	Hi							Plan	
			Benefit Overpayments	Su										Plan	
			Universal Credit										Plan		
	Debt Recovery Service								St				Plan		
	Discretionary Housing Payments						Cnc	Su					Plan		
	Revenues & Benefits Compliance									Plan					

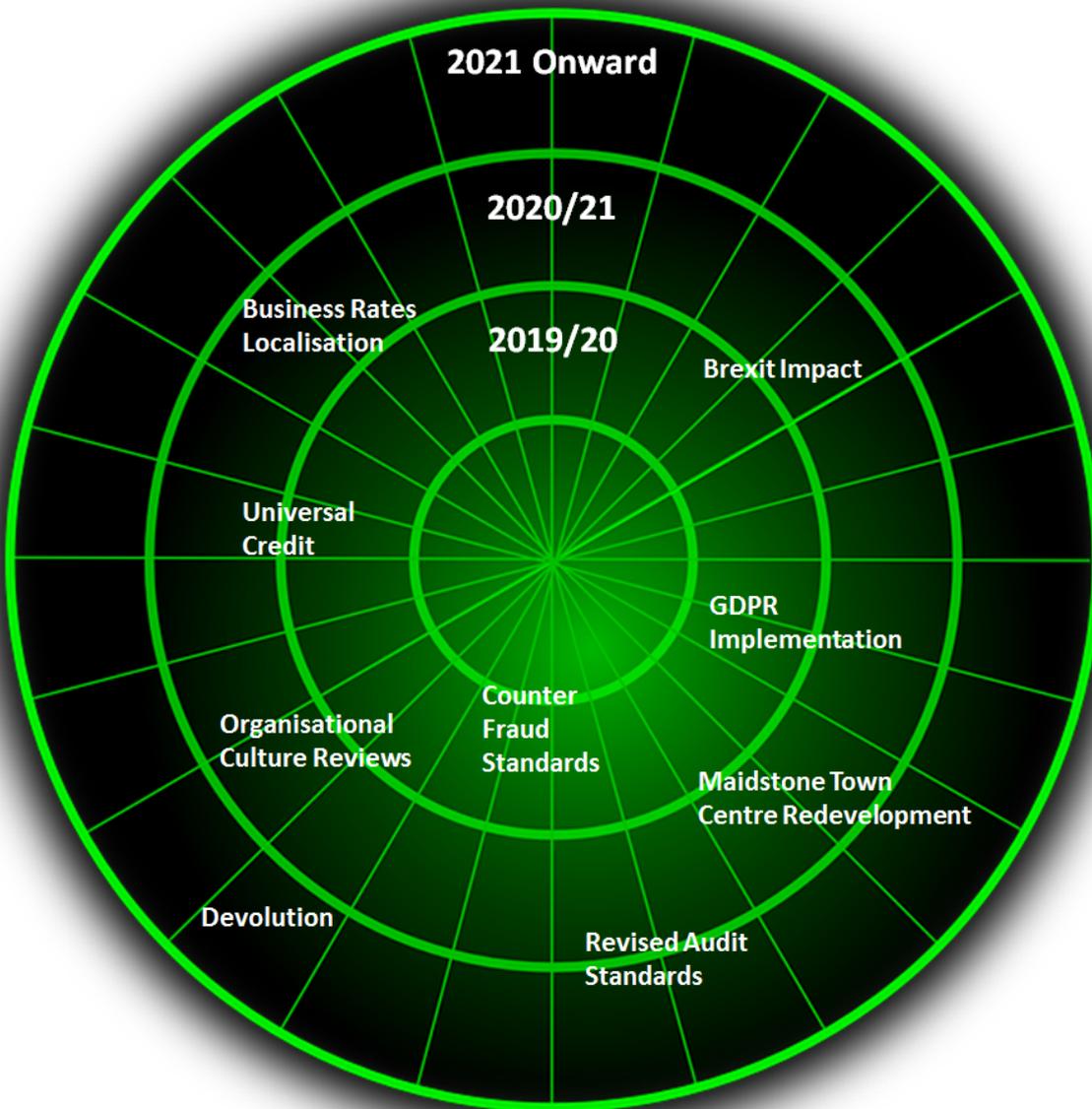
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Director	Head of Service	Auditable Areas	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Mid Kent Services Director	Head of Legal Partnership	Legal Service Review		Cnc					Plan				Plan
		Registers of Interest			Cnc	Wk				Plan			
	Mid Kent Planning Support Manager	Planning Support System					Wk				Plan		
		Planning Support	Planning Income								Plan		
			Land Charges				Cnc		Cnc	Wk			Plan
	Print Room											Plan	

Auditable Areas Key:	Audit Results Key:
Core Finance System	High/Strong
Governance Area	Substantial/Sound
Operational Area	Limited/Weak
	No/Poor
	Cancelled from plan
	In progress from plan
	No rating given
	On future plan

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As set out in the risk assessment, we also consider broader issues that don't necessarily fit within the structure chart. These include the Council's strategic risks and subjects where the right audit response is not yet clear. The chart below summarises some of these subjects we are keeping track of, for potential future inclusion within an audit programme:



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Appendix II: Audit Team CVs & Experience

Management

Rich Clarke CPFA ACFS (Head of Audit Partnership): Rich became head of the audit partnership in April 2014 joining from KPMG, where he had a range of internal and external audit clients across the public sector. Rich is a Chartered Accountant (CPFA) and during 2015 undertook and passed further study to become an Accredited Counter Fraud Specialist (ACFS). Rich is also UK Local Government representative on the Internal Audit Standards Advisory Board, the body charged with updating the Public Sector Internal Audit Standards. In 2016 Rich also began ancillary work as a CIPFA associate, delivering training on CIPFA's behalf across the country on managing and improving internal audit teams. In addition, Rich is currently Chairman of the Kent Audit Group and an Executive Board Member and Treasurer of the London Audit Group.

Russell Heppleston CMIIA (Deputy Head of Audit Partnership): Russell started working for the Maidstone / Ashford partnership in November 2005, and continued his role as Auditor for the Mid Kent Audit Service when it was established in 2010. He progressed through professional qualifications with the Institute of Internal Auditors (IIA) to achieve Chartered member status and the Qualification in Internal Audit Leadership (QIAL). Having been appointed as Audit Manager for Swale and Maidstone in 2013, Russell was subsequently appointed as Deputy Head of Audit Partnership in the 2015 restructure. Russell has recently attained the International Diploma of Enterprise Risk Management (GradIRM), and leads the risk management support work across the partnership.

Frankie Smith CMIIA (Audit Manager – Swale & Tunbridge Wells): Frankie Smith has worked in internal audit for 17 years, starting as an auditor at Maidstone Borough Council. During this time Frankie has completed audits at Ashford, Maidstone, Swale and Tunbridge Wells. Frankie achieved Chartered Auditor (CMIIA) status in August 2015 and was appointed that same month to the role of Audit Manager at Swale and Tunbridge Wells.

Alison Blake ACCA, CIRM (Audit Manager – Ashford & Maidstone): Alison joined the internal audit partnership in 2012 and took on the role of Audit Manager in January 2016. Prior to this Alison worked for South Coast Audit for 7 years where she undertook internal audit work across a range of NHS clients in East Kent. During Alison's career she has completed a wide range of audit work with the aim of supporting the in achieving their objectives and the objectives of the organisation as a whole. In 2014 Alison achieved the Certificate qualification from the Institute of Risk Management.

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Senior Auditors

Mark Goodwin ACFT (Senior Auditor): Mark joined Ashford Borough Council in January 1999 having previously worked at Maidstone Borough Council in an audit role. He was a founder member of the Ashford and Maidstone Internal Audit Partnership before this developed into the four-way Mid Kent Audit Partnership in April 2010. He is an experienced auditor who has audited extensively the full spectrum of Council services and activities across a number of local authorities. Mark was awarded the Accredited Counter Fraud Technician (ACFT) designation by CIPFA in March 2016.

Claire Walker (Senior Auditor): Claire joined the audit partnership in September 2010, and has wide experience in a variety of sectors and bodies; Local and Central Government, Arts, Broadcasting, Financial Services, NGOs and Not for Profit Sector and associated grant making programmes. Claire delivered some training and mentoring projects for the FCO, in addition to work on European Social Fund projects. Within Local Government Claire has undertaken a wide range of audits with a focus on legal compliance, contracts and governance arrangements. Other audit experience covers outsourcing functions, due diligence, and fraud investigations.

Jo Herrington PIIA CIA (Senior Auditor): Jo joined the audit partnership in September 2013. Prior to this Jo worked for Gravesham BC for nearly nine years where she gained experience of working in the Finance department and the Revenues department before settling in the Internal Audit team in September 2009. As part of the Internal Audit team she gained broad experience conducting financial and operational audit reviews, as well as being involved in working groups across the authority. Jo was promoted to the position of Senior Auditor in 2015 and has since gained qualifications as a Practitioner of the Institute of Internal Auditors (PIIA) in October 2015 and as a Certified Internal Auditor (CIA) in June 2016.

Jen Warrillow PIIA CIA (Senior Auditor): Jen joined Mid Kent Audit in September 2013 from Kent County Council where she trained as an Internal Auditor. She undertook a wide range of audits including financial, governance and grant funding internally for the Council and externally for Parish Councils. Jen was previously an investigator at Swale BC and then moved on to Tonbridge & Malling BC. She is now studying to become a Chartered Member of the Institute of Internal Auditors. Jen was promoted to the position of Senior Auditor during the 2015 restructure.

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Auditors

Paul Goodwin AAT (Auditor): Paul began working for Tunbridge Wells BC in 1990 and has spent almost all his work since in Internal Audit. Paul is a qualified Accounting Technician.

Andy Billingham (Auditor): Andy joined the Partnership in December 2015. He had previously worked for Swale Borough Council for 10 years within the Revenues and Benefits department gaining extensive knowledge of local government while dealing with complex disputes and representing the authority at Tribunals. Andy holds a degree in History as well as an Institute of Revenue Rating and Valuation qualification. He is currently studying towards the Certified Internal Auditor (CIA) qualification.

Trainee Auditors

Ben Davis (Trainee Auditor): Ben joined the team in March 2015 as a trainee auditor. He holds a degree in Modern History from UEA and has previous experience in finance teams in the private and voluntary sectors. Ben began training towards achieving a professional qualification through the Chartered Institute of Public Finance and Accountancy (CIPFA) and has progressed successfully through the qualification. He aims to achieve the full professional qualification in mid 2018.

Louise Taylor (Trainee Auditor): Louise joined the team in November 2015 as audit team administrator and became a trainee auditor in August 2016. Louise had previously worked in the Planning department of Maidstone BC and has extensive experience working with local authorities. In early 2017 Louise began training to become a Certified Internal Auditor (CIA) with the Institute of Internal Auditors (IIA). She also holds an MA in Planning, Policy and Practice and a degree in Human Geography.

Framework Contracts

In March 2018 we signed on to be a part of the APEX Audit and Anti-Fraud framework. Administered by London Borough Croydon, this agreement allows participating local authorities to acquire specialist and general audit support through a centrally procured contract, with no minimum or maximum commitment. After a competitive tender, LB Croydon awarded the framework contract in December 2017 to Mazars LLP, a major accounting and audit firm we have worked with previously in Mid Kent.

We also, informally, have negotiated with Kent County Council access to its call-off contract for specialist and general audit support with BDO LLP. Therefore we now have two straightforward and competitively priced options to help support our work.

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Appendix III: Performance Indicators

Area	Ref	Indicator	Definition
Finance	F1	Cost per audit day	Total cost of service / productive days
	F2	Audits completed on budget	Percentage of audits delivered within pre-determined number of days
	F3	Chargeable days	Percentage of staff time spent on delivering the audit plan (as distinct from training, personnel management, admin and so on).
Internal Process	I1	Full PSIAS conformance	Conformance with Public Sector Internal Audit Standards, as assessed by IIA
	I2	Audits completed on time	Percentage of audits completed on or before a deadline agreed with the audit sponsor within our audit brief
	I3	Draft reports on time	Percentage of draft reports delivered within 10 days of concluding fieldwork
Customer	C1	Satisfaction with assurance	Percentage of respondents 'very/satisfied' with the assurance received based on surveys sent at end of each audit project
	C2	Final reports on time	Percentage of final reports delivered within 5 days of closing meeting
	C3	Satisfaction with conduct	Percentage of respondents 'very/satisfied' with staff conduct shown based on surveys sent at end of each audit project
Learning & Developing	L1	Implemented recommendations	Percentage of recommendations implemented as agreed with audit
	L2	Qualification Success	Pass rate of exams undertaken by members of the audit team.
	L3	Satisfaction with skills	Percentage of respondents 'very/satisfied' with staff skills displayed based on surveys sent at end of each audit project

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Appendix IV: Assurance Ratings

Assurance Ratings 2018/19 (unchanged since 2014/15)

Full Definition	Short Description
<p>Strong – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any, recommendations and those will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p>Sound – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p>	<p>Service/system is operating effectively</p>
<p>Weak – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p>Poor – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p>	<p>Service/system is not operating effectively</p>

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Recommendation Ratings 2018/19 (unchanged since 2014/15)

Priority 1 (Critical) – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

Priority 2 (High) – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council's aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

Priority 3 (Medium) – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

Priority 4 (Low) – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

Advisory – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.

ⁱ *Vanitas Still Life* by Evert Collier (1662)

Agenda Item 14

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

19 March 2018

Annual Accounts Preparation

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

Executive Summary

This report sets out the proposed process for the preparation, audit and approval of the 2017/18 Statement of Accounts and summarises the changes to the Local Audit Regulations under the Local Authority Audit and Accountability Act which comes into effect this year.

This report makes the following recommendations to this Committee:

1. To note the arrangements for preparation and sign off of the 2017/18 Statement of Accounts, specifically:
 - That the Committee will no longer be asked to formally consider the draft version of the accounts; and
 - That the External Auditor's Audit Findings Report will be presented as an urgent update to the agenda for July's meeting due to the timing of external audit work.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	19 March 2018

Annual Accounts Preparation

1. INTRODUCTION AND BACKGROUND

- 1.1 One of the responsibilities of this Committee is to approve the annual Statement of Accounts.
- 1.2 We have previously reported to you changes to the Local Audit and Accountability Act which will come into effect for the 2017/18 Statement of Accounts and will have an effect on the review and approval process.
- 1.3 The impact of these changes means that the timetable for producing, auditing and signing off the Statement of Accounts has been accelerated. The changes are summarised in the table below:

	2016/17 Accounts	2017/18 Accounts (Plan)
Deadline for producing draft accounts	30 June	31 May
Draft Statement of Accounts considered by Audit, Governance & Standards Committee	26 June	Briefing to be held in June
External Audit commenced	3 July	9 July
Final Statement of Accounts approved by Audit, Governance & Standards Committee	18 September	30 July
Audit opinion issued	28 September	30/31 July
Final deadline	30 September	31 July

Table 1: Key dates for signing off 2016/17 & 2017/18 accounts

- 1.4 Given the reduced timeframe, it will not be practical for a draft version of the accounts to be formally considered by the Committee, which represents a change to the current process. There is no legal requirement for the Committee to review the draft accounts prior to approving the final version, although in the past it has been considered useful to allow early consideration of the draft document by Committee members. Plans are in place to accommodate this through an informal briefing session for members to be held in June. In addition, the draft accounts will be available on the Council's website and for inspection by the public from 31 May onwards.
- 1.5 Members will also note that the external auditors will commence their work on 9th July, in advance of the meeting of the Audit, Governance and Standards Committee to approve the accounts on 30th July. It has not been possible to bring forward the start date of the audit, as Grant Thornton are heavily committed at this time of year. Grant Thornton will be carrying out early audit testing in March in order to reduce the volume of work to be carried out at the final audit.
- 1.6 As the audit will still be in progress at the agenda deadline date, it is likely that the External Auditor's Audit Findings report will be presented as an urgent update to the agenda for the July meeting, in order to ensure that this includes the most up to date information that may be of use to members in considering their decision to approve the accounts.

1.7 The Statement of Accounts is a complex document, and table 1 above illustrates that meeting the revised statutory deadlines will present a significant challenge for MBC officers as well external audit staff. However, substantial efforts have been made in order to ensure that we are well prepared to meet this challenge, with the draft 2016/17 accounts being produced well in advance of the June deadline last year. Further measures that have been implemented in order to streamline the process and ensure that deadlines are met include:

- A review of the Statement of Accounts document, to declutter and remove any unnecessary sections.
- Rationalisation of management's approach to producing accounting estimates, including a change in the property valuation date to 31 January.
- Changes to the operational timetable for producing the draft accounts to shift certain tasks to earlier in the year where possible.
- Briefing taken to the Wider Leadership Team to raise awareness of revised deadlines and pressures on the finance team during April and May.
- Training sessions with budget managers and administrative staff to highlight the importance of meeting key deadlines around the year end.
- Liaison with third parties who provide information required for the financial statements to ensure that this will be supplied within the agreed timeframes.
- Officer attendance at workshops and training sessions, and learning from good practice shared by peers from other local authorities who are already working to these deadlines.
- Working closely with the external auditor to agree treatment of complex transactions and balances, and to ensure that supporting information and working papers provided will facilitate swift completion of audit testing in July.
- Completion of early audit testing scheduled by the external auditor for March, detailed further in the audit plan which is also on the agenda for this meeting.
- Changes to the timetable for meetings of the Audit, Governance and Standards committee to accommodate the July deadline for approving the accounts.

1.8 It is hoped that acceleration of the closure process will enable finance staff to dedicate more time to in-year financial management.

2. AVAILABLE OPTIONS

2.1 This report is for information and is intended to assist the Committee in discharging its responsibilities in relation to external audit and the Statement of Accounts. The Committee is recommended to note the contents of the report.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 The Committee is asked to note this report. Following the changes to the statutory timetable, it is considered appropriate to provide a summary of the Council's response at this point in time.

4. RISK

- 4.1 This report is presented for information and there are no decisions that would give rise to risk management implications.
- 4.2 Failure to meet the statutory deadline for production and audit of the annual accounts would result in this being highlighted in Public Sector Audit Appointments Limited's report on the results of auditors' work. For 2016/17, 92% Councils met the statutory deadline of 30 September, with 17% audit opinions being issued by the new deadline of 31 July. The impact of this risk materialising would have largely reputational repercussions for the Council, and would limit the Council's capacity to demonstrate accountability and value for money in its use of public funds.
-

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

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

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 Next steps are outlined in the table at paragraph 1.3 above.
-

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, production of the annual Statement of Accounts which is free from material or significant error is a key element of demonstrating accountability and value for money. It is therefore important that the Statement of Accounts	Head of Finance

	meets this requirement.	
Risk Management	Already covered in the risk section.	Head of Finance
Financial	The Statement of Accounts provide an overview of income and expenditure for the financial year to 31 March 2018, and details the council's assets, liabilities and reserves at this date.	Section 151 Officer & Finance Team
Staffing	We will deliver the recommendations with our current staffing.	Head of Finance
Legal	The legislation leading to the accelerated process for the approval of the Statement of Accounts is identified in the report. No legal implications are identified.	Keith Trowell, Interim Team Leader (Corporate Governance)
Privacy and Data Protection	There are no specific privacy or data protection issues to address.	Keith Trowell, Interim Team Leader (Corporate Governance)
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Head of Finance
Crime and Disorder	None identified.	Head of Finance
Procurement	None identified.	Head of Finance

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

19 March 2018

External Audit Progress Report March 2018

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

Executive Summary

Committee members are invited to consider the report of the external auditor which provides an update on progress with the 2017/18 audit and offers a summary of emerging national issues and developments of relevance to the local government sector.

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

This report makes the following recommendations to this Committee:

1. That the External Audit Progress Report, attached at **Appendix A** be noted.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	19 March 2018

External Audit Progress Report March 2018

1. INTRODUCTION AND BACKGROUND

- 1.1 External audit services are provided by Grant Thornton who successfully tendered for the five year contract from 2012-13 following the abolition of the Audit Commission's audit practice.
 - 1.2 The report attached at **Appendix A** provides an update on progress with the 2017/18 audit and informs committee members of a number of relevant emerging issues and developments.
-

2. AVAILABLE OPTIONS

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

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

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

4. RISK

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

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

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

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 Next steps are outlined within **Appendix A**.
-

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The report is focused on ensuring that the auditor's opinion on the 2017/18 financial statements and value for money conclusion are issued by the statutory deadline of 31 July 2018.	Head of Finance
Risk Management	Risks arising are set out above in section 4 of the report.	Head of Finance
Financial	There are no direct financial implications arising from the report, although the opinion on the financial statements and value for money conclusion are one mechanism through which the council demonstrates financial accountability.	Head of Finance
Staffing	None identified.	
Legal	None identified.	
Privacy and Data Protection	None identified.	
Equalities	None identified.	
Crime and Disorder	None identified.	
Procurement	None identified.	

8. REPORT APPENDICES

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

- **Appendix A:** External Audit Progress Report 2017/18

APPENDIX A

External Audit Progress Report March 2018

Audit Progress Report and Sector Update

Maidstone Borough Council
Year ending 31 March 2018

19 March 2018



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Introduction



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This paper provides the Audit, Governance and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)



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Engagement Manager

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Members of the Audit, Governance and Standards Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk.

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

Progress at March 2018

Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit in January 2018, with a further visit being undertaken in March 2018. Our interim fieldwork visit includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing covering Months 1 to 10

The findings from our interim work to date are summarised on Page 6 onwards.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on the 20 June with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We undertook our initial risk assessment to determine our approach in February 2018 and this is reported to you in our Audit Plan, which is included on the Agenda for this meeting as a separate item.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2017/18 claim will be concluded by November 2018.

The results of the certification work will be reported to you in our Certification Letter. The Letter summarising our work on the 2016/17 claim was discussed at the previous Committee in January 2018.

Meetings

We met with Finance Officers in October as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. We know that members of your finance team attended our recent Chief Accountant's Workshop, held at Ashford Borough Council, and will ensure they are kept aware of any further technical updates. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit, Governance and Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2017/18 financial statements.	March 2018	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	In progress
Audit Findings Report The Audit Findings Report will be reported to the July Audit, Governance and Standards Committee.	July 2018	Not yet due
Auditors Report This is the opinion on your financial statements, Annual Governance Statement and Value for Money conclusion.	July 2018	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2018	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

Results of Interim Audit Work

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

	Work performed	Conclusions and recommendations
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
Review of information technology controls	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

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Results of Interim Audit Work (continued)

	Work performed	Conclusions and recommendations
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. For the purposes of our work this year, this review covers the Employee Remuneration and Operating Expenses systems.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We are in the process of undertaking detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. To date, no issues have been identified that we wish to highlight for your attention.</p>	<p>To date, our work has not identified any weaknesses which impact on our audit approach or that we wish to bring to your attention at this stage of proceedings.</p>

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Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

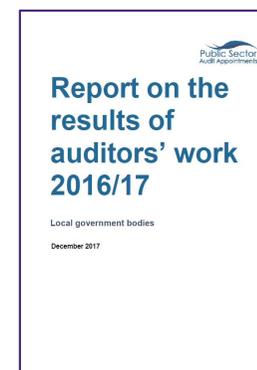
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



Changes to the prudential framework of capital finance

The Ministry of Housing, Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

Statutory Guidance on Local Authority Investments

Transparency and democratic accountability – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Principle of contribution – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

Introduction of a concept of proportionality – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

Borrowing in advance of need – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

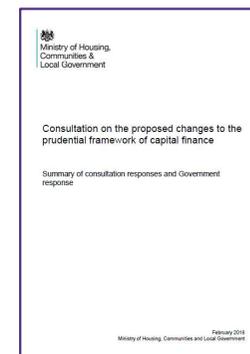
Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

Meaning of a charge to the revenue account – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

Impact of changing methods of calculating MRP – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

Introduction of a maximum economic life of assets – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



Changes to capital finance framework



CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.



CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn

The Code is available in hard copy and online.

CIPFA Publication



Overview of the General Data Protection Regulation (GDPR)

What is it?

The GDPR is the most significant development in data protection for 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.

How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that can identify a living individual, either directly or indirectly. Various unique personal identifiers (including online cookies and IP addresses) will fall within the scope of personal data

What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

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Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Some organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

Notifications and Rights

- Organisations must notify significant data breaches to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

Claims and Fines

- For the most serious data breaches, privacy regulators can impose penalties of up to €20 million on public sector organisations,
- Individuals and representative organisations can claim compensation for infringements of data protection law

Questions for your organisation:

- Can your organisation erase personal data effectively?
- Have you appointed a Data Protection Officer if required to have one?
- How will your organisation ensure citizens know how their data is being used and whether it's being shared with other organisations?

Through a local lens: SOLACE summit 2017

The Industrial Strategy matters to places but places also matter to the Industrial Strategy.

This was a strong message coming out of discussions at the recent SOLACE (Society of Local Authority Chief Executives) summit where we facilitated 100 local authority CEOs and senior leaders to consider how the Industrial Strategy could be brought to life at a local level.

For some time now we have engaged in an ongoing and inclusive dialogue with communities and business, local authority and third sector leaders from across the country, to share aspirations, ideas and insight focused on building a vibrant economy for the UK. These discussions have helped to form the basis of our Vibrant Economy 'Blueprint for the UK' and they will go on to inform our recommendations to Government around a place-based approach to the Industrial Strategy.

This year's summit provided us with an invaluable opportunity to take this dialogue further.

We focused on the integral role local government will have in delivering the Industrial Strategy. Delegates applied a local lens to the national growth agenda, encouraging them to consider what strategies and approaches were already working in their place; what they could be doing more of to support growth in their area, and how they could steer the Industrial Strategy agenda from a local level.

Using the appreciative inquiry technique, we discussed the following questions:

What role would leaders and local institutions be playing if they were delivering positive outcomes from the industrial strategy?

Looking ahead and considering our diverse local authority agendas, the industrial strategy and surrounding policy landscape what aspects might work well for everyone?



You can see and hear what delegates thought on our [website](#)

Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

[Click on the report cover to download and read more](#)



Grant Thornton Publication



Supply Chain Insights tool helps support supply chain assurance in public services

Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
 - organisation and category
 - service provider
 - date at a monthly level
- benchmark your spend against your peers
- identify:
 - organisations buying similar services
 - differences in pricing
 - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton



Cost Assurance

Did you know....

40

Number of Public Sector engagements to date

£125m

Annual spend analysed

£3.55m

Rebate opportunities identified

99

£1.1m

Fee income identified

2.84%

Error rate – rebates versus spend volume

55%

Of Public Sector engagements are Local Government

Our Cost Assurance service line provides Local Authorities with an independent and retrospective audit of their legacy telecommunications and utilities costs incurred during the past 6 years (as per the Statute of Limitation).

We find that there are repeat errors contained within a Suppliers' invoice arrangements – errors that aren't necessarily picked up by the end client. This is due to the fact that they tend to be contained in suppliers' billing systems 'at source' and are much further down the supply chain which the user won't necessarily have visibility of.

We are supported by a comprehensive library of legacy supplier pricing that has been collated since 2011. Our one aim is to ensure that the client has only paid for the services used during the period by:

- ensuring that bills presented by Suppliers' are in line with their contracts and relevant pricing mechanisms
- ensuring the client receives the Supplier refunds where errors have been identified by us
- ensuring consequential savings are identified and implemented immediately for the client

Our Cost Assurance work is based on a contingent-fee model and is supported by PSAA Ltd. Each of our Local Authority engagements include a fee cap to ensure governance and regulatory standards are maintained.

In summary, we are able to bring much needed financial benefit to the sector as well as providing insight into errors that may be prone to repeat offence by suppliers long after our work is concluded.

Grant Thornton



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/>

<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

<http://www.cfoinsights.co.uk/>

<http://supplychaininsights.grantthornton.co.uk/>

PSAA website links

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

MHCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

National Audit Office link

<https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/>

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

19 March 2018

External Auditor's Audit Plan 2017/18

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

Executive Summary

This report from the Council's External Auditor, Grant Thornton, sets out the planned approach to delivering the audit of the 2017/18 financial statements and value for money conclusion.

This report makes the following recommendations to this Committee:

1. That the External Auditor's Audit Plan, attached at **Appendix A** be noted.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	19 March 2018

External Auditor's Audit Plan 2017/18

1. INTRODUCTION AND BACKGROUND

- 1.1 The external auditor produces an annual audit plan for the financial statements audit opinion and value for money conclusion. As in previous years this work will be undertaken by Grant Thornton, the appointed auditors. A copy of the plan, which includes the outcomes of work undertaken to date, is attached at **Appendix A**.
- 1.2 Representatives from Grant Thornton will be in attendance at the meeting to present their report and respond to questions.
-

2. AVAILABLE OPTIONS

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

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 The Committee is asked to note this report. The report details the external auditor's plan for ensuring the delivery of the audit opinion and value for money conclusion by the statutory deadline and notes the significant risks identified, the results of the work undertaken to date and the anticipated audit fee. It is considered appropriate for the committee to receive this information at this time.
-

4. RISK

- 4.1 This report is presented for information and there are no decisions that would give rise to risk management implications.
-

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

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

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 Next steps are outlined within **Appendix A**.
-

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, production of the annual Statement of Accounts which is free from material or significant error is a key element of demonstrating accountability and value for money. It is therefore important that the Statement of Accounts meets this requirement.	Head of Finance
Risk Management	This report supports the committee in the delivery of its governance responsibilities. It also helps to mitigate the risk of non-compliance with the statutory timetable for the production and audit of the annual accounts through timely communication of any potential issues.	Head of Finance
Financial	There are no direct financial implications arising from the report, although the opinion on the financial statements and value for money conclusion are one mechanism through which the Council demonstrates financial accountability.	[Section 151 Officer & Finance Team]
Staffing	None identified.	Head of Finance
Legal	None identified.	[Legal Team]
Privacy and Data Protection	None identified.	[Legal Team]
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	[Policy & Information Manager]
Crime and Disorder	None identified.	Head of

		Finance
Procurement	None identified.	Head of Finance

8. REPORT APPENDICES

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

- Appendix A: External Auditor’s Audit Plan 2017/18

APPENDIX A

External Auditor's Audit Plan 2017/18

External Audit Plan

Year ending 31 March 2018

Maidstone Borough Council

19 March 2018

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Contents



Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction & headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit, Governance and Standards Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

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

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

Significant risks

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

- The revenue cycle includes fraudulent transactions
- Management override of controls
- Valuation of Property, Plant and Equipment
- Valuation of the Pension Fund Net Liability

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

Materiality

We have determined planning materiality to be £1.813m (PY £1.787m), which equates to 2% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £90,700 (PY £89k).

We have determined Cash to be 'material by nature' and have set a lower separate materiality of £500k for this area.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk:

- Overall financial position – Medium Term Financial Plan

Audit logistics

Our interim visit will take place in February/March and our final visit will take place in June/July 2018. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £50,475 (PY: £50,475) for the Council.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Deep business understanding

Changes to service delivery		Changes to financial reporting requirements		Key challenges	
<p>Commercialisation</p> <p>The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. The Council has set up a property company to manage the properties it is purchasing to enable it to generate market rents from these to support its financial position.</p> <p>Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version of the Code was published in December 2017.</p>	<p>Business Rate Pooling</p> <p>In September 2017, the government launched a prospectus inviting local authorities to submit proposals to pilot 100% business rates retention in 2018/19. Kent councils worked together to submit a bid proposing 70% of the monies being retained to support financial sustainability of the authorities involved and 30% being used to fund future growth initiatives. It was announced in December 2017 that Kent will be one of the 10 new pilots. The retained monies will be distributed to each authority on the basis of their population and growth.</p>	<p>Accounts and Audit Regulations 2015 (the Regulations)</p> <p>The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.</p> <p>Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.</p>	<p>Narrative Reporting</p> <p>The 2017/18 Code has introduced a 'principles-based approach' to preparing the Narrative Report. The aim of this is to bring in the requirements of the Strategic Report from the HM Treasury Financial Reporting Manual (FRoM).</p> <p>The new guidance is not overly prescriptive and thus the aim is for Local Authorities to use this section to tell the story of what matters to the readers of their Accounts, and thus should focus on the items which are going to have a significant impact on the Council's operations.</p>	<p>Financial Pressures</p> <p>The Council has a good track record of delivering against its budgets, and has set a balanced budget for 2018-19, with the aim of delivering a small surplus at the end of that year.</p> <p>There is still a need to identify a small level of savings for 2019-20, but past this date the savings gap is in the region of £2.5m over the last three years of the Medium Term Financial Plan. There is of course a lot of uncertainty still over this period given the next Local Government Spending Review will take effect from 2020, but the Council should look to be proactive in looking for savings for this period so they are in a strong position irrespective of what the Review delivers.</p>	<p>Temporary Housing</p> <p>The demand for Temporary Housing in the Borough remains a challenge for the Council, with this area again generating an overspend during the course of the year.</p> <p>The Council is undertaking considerable work to try to tackle the causes of homelessness in the Borough, which is having some success as more properties are being brought into use to house some of the people who have been made homeless. The Council has also received some homelessness grants which are also going to be used to try and reduce the financial burden this is placing on the Council.</p>
		<p>Changes to the CIPFA 2017/18 Accounting Code</p> <p>CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.</p>			

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, and the impact of impairment assessments and the adequacy of any provisions included within the Accounts.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Maidstone Borough Council.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. .</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

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Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	<p>The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review management's processes and assumptions for their calculation of the estimate, the instructions issued to valuation experts and the scope of their work • consider the competence, expertise and objectivity of any management experts used; • discuss with the valuer the basis on which the valuation is carried out and challenge of the key assumptions; • review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; • test revaluations made during the year to ensure they are input correctly into the Council's asset register; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of pension fund net liability	<p>The Council's pension fund asset and liability as reflected in its balance sheet represents a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out • Undertake procedures to confirm the reasonableness of the actuarial assumptions made. • Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Employee remuneration</p>	<p>Payroll expenditure represents a significant percentage (16%) of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness; • gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; • agree that payroll costs are complete within the financial statements via review of the reconciliations between the payroll system and the General Ledger; and • gain assurances via a trend analysis and detailed analytics to ensure that pay included within the accounts is materially complete. If this is not possible we will undertake further substantive testing of a sample of employees.
<p>Operating expenses</p>	<p>Non-pay expenses on other goods and services also represents a significant percentage (39%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • perform detailed substantive testing on operating expenditure recorded for the financial year; and • test operating expenditure to ensure cut-off has been correctly applied.

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Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

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

Materiality for planning purposes

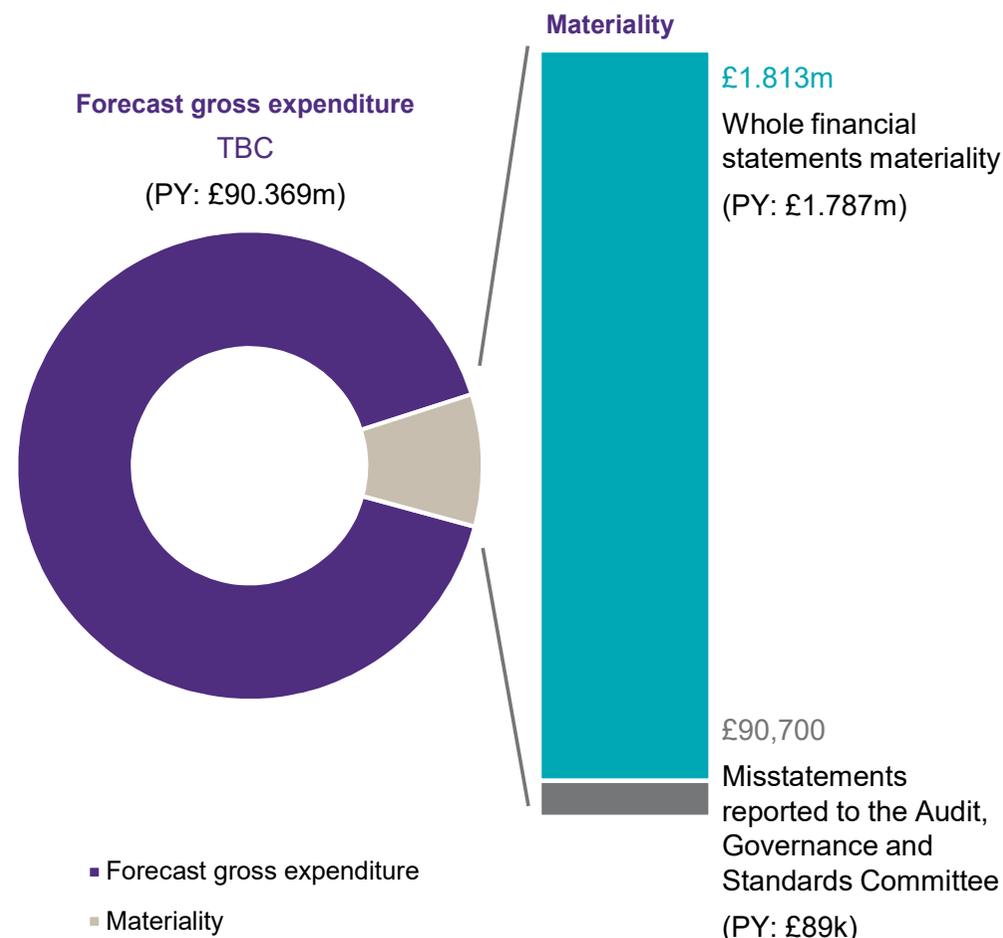
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £1.813m (PY £1.787m), which equates to 2% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality. As mentioned on Page 3, we have determined Cash to be 'material by nature' and have set a lower separate materiality of £500k for this area.

Matters we will report to the Audit, Governance and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Governance and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £90,700 (PY £89k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Governance and Standards Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Background to our VFM approach

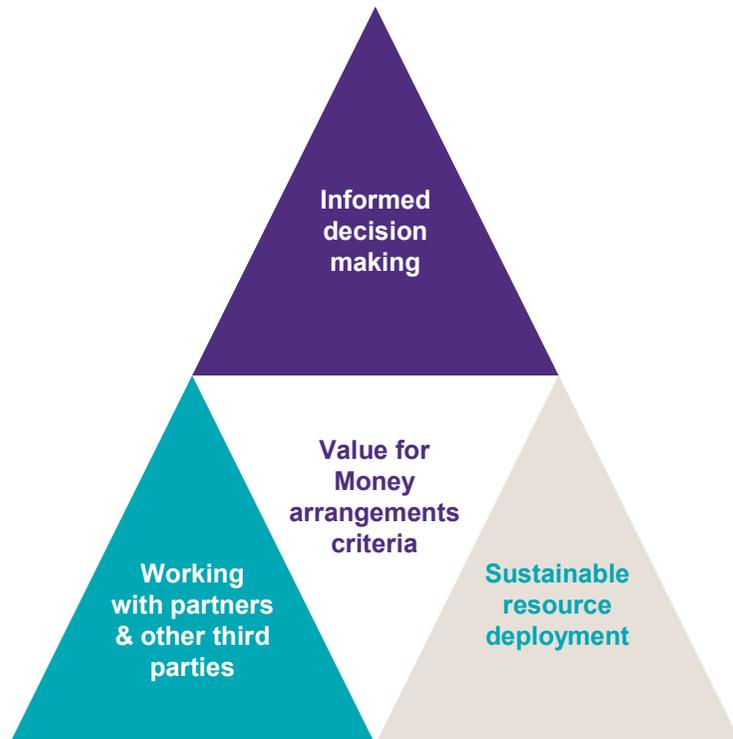
The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:

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Significant VFM risks

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



Overall Financial Position – Medium Term Financial Plan

Risk

Whilst the Council has been able to set a balanced budget over the short term, currently there is a requirement for a considerable level of savings of the life of the current Medium Term Financial Plan (MTFP). This is largely to do with the uncertainty over the next Local Government Finance Settlement, which will take effect from 2020, but the Council should be looking to take steps to mitigate any negative impact from the Settlement where possible.

Response

We propose to:

- review the assumptions behind the latest MTFP, covering the period up to March 2023;
- consider the 2017-18 budget outturn, and any implications this may have for the MTFP, along with the latest outturn against the 2018-19 budget
- review the savings proposals which have been identified to date in respect of the savings requirements, along with the plans that the Council has to identify the additional savings currently required for the life of the MTFP.

Audit logistics, team & audit fees



Darren Wells, Engagement Lead

Darren will be the main point of contact for the Chief Executive, the Section 151 Officer and Members. Darren will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the Audit, Governance and Standards Committee. Darren will ensure our audit is tailored specifically to you and is delivered efficiently. Darren will review all reports and the team's work.



Matt Dean, Audit Manager

Matt will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Matt will attend Governance and Audit Committees, undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all. Matt will work with Internal Audit to secure efficiencies and avoid any duplication, providing assurance for your Annual Governance Statement.

Audit fees

The planned audit fees are no less than £50,475 (PY: £50,475) for the financial statements audit. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. The indicative fee for our on the housing benefit subsidy certification for 2017-18 is no less than £11,418 (PY: £10,433). Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on the previous page). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Non-audit services

No non-audit services were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

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Appendix



A. Revised ISAs

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Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

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Agenda Item 17

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

19 March 2018

Budget Strategy – Risk Assessment Update

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

Executive Summary

This report provides an update on the budget risks facing the Council. There continue to be inherent risks from uncertainty about the national economic position and the future funding of local government. Locally, the Council is increasing the level of capital investment, so risks around funding and management of the capital programme will have a greater impact.

This report makes the following recommendations to this Committee:

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

Timetable

Meeting	Date
Audit, Governance and Standards Committee	19 March 2018

Budget Strategy – Risk Assessment Update

1. INTRODUCTION AND BACKGROUND

- 1.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Members have requested that the Budget Risk Matrix and Risk Register be updated and reported to each meeting of the Committee, so that it continues to be fully briefed on factors likely to affect the Council's budget position.
- 1.2 The key element in the Council's budget strategy is its rolling five year Medium Term Financial Strategy (MTFS). An updated five year MTFS for 2018/19 – 2022/23 was agreed by Council at its meeting on 25th October and formed the basis for the detailed budget for 2018/19 that was agreed by Council at its meeting on 7th March 2018.
- 1.3 Given uncertainty about the future, MTFS projections were prepared on the basis of various potential scenarios, representing (a) favourable, (b) neutral and (c) adverse sets of circumstances. The revenue budget, as adopted, was based on the neutral scenario.
- 1.4 'Adverse scenario' proposals were developed for contingency planning purposes, based on a more radical approach, including service cuts. The 'adverse' budget proposals will be revisited and updated as necessary if it appears that the assumptions on which neutral scenario is based are no longer valid.
- 1.5 The main elements of uncertainty arise from potential changes to the local government funding regime after 2020 and the general economic climate. The government is undertaking a Fair Funding Review, which addresses how resources will be distributed between local authorities after 2020. There are severe pressures on County Councils and Unitary Authorities, which are responsible for adults' and children's social services. This was illustrated by the recent difficulties faced by Northamptonshire County Council in setting a balanced budget.
- 1.6 This poses the risk that there may be a rebalancing of resources away from District Councils in 2020 in favour of Unitaries and upper tier authorities, notwithstanding the fact that shire districts will have experienced average spending power cuts of 25%, compared to 15% for unitaries and 1% for county councils between 2010/11 and 2019/20.
- 1.7 The wider economic climate impacts the Council in particular through our exposure to fluctuations in business rates income. Around 35% of the Council's business rates income comes from the retail sector, which is particularly exposed to economic fluctuations and general trends in consumer behaviour. A major downturn in High Street trading could have a significant impact for the Council, reducing the level of business rates collected and the opportunities to benefit from business rates growth through the business rates retention pilot.

- 1.8 Council adopted an expanded capital programme at its meeting on 7th March 2018. The overall five year programme is now worth £75 million, as compared to £60 million previously. Next year budgeted expenditure is £27 million as compared with projected actual expenditure of £14 million in the current financial year. The Council has already recognised a risk around the availability of funding for the capital programme, and there has been no recent indication that the availability of borrowing for the capital programme is under threat, so there is no change in the likelihood of this risk materialising. However, the increasing size of the capital programme and its importance in delivering the Council’s strategic objectives mean that the impact of an inability to fund the capital programme will be significantly greater in future.
- 1.9 The risks included in the Budget Risk Register have been reviewed in light of the above developments. A summary of the changes to the risk register is set out below. Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register.

	Risk	Factor considered	Implications for risk profile
J	Capital programme cannot be funded	There has been no recent indication that the availability of borrowing for the capital programme is under threat. However, the increasing size of the capital programme means that the impact of an inability to fund the capital programme would be greater in future.	Impact - increased Likelihood - no change
L	Collection targets for Council Tax and Business Rates missed	Business rates income depends on the financial strength of ratepayers. The commercial sector, particularly retail, is vulnerable to a downturn in the economy and to changes in consumer shopping habits.	Impact – no change Likelihood – increased
M	Business Rates pool / pilot fails to generate sufficient growth	As above.	Impact – no change Likelihood – increased

2. AVAILABLE OPTIONS

- 2.1 Option 1 - The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This may impact

the Council's service planning and/or be reflected in the developing Medium Term Financial Strategy.

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

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

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

4. RISK

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

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 Each year the council as part of the development of the MTFS and budget carries out consultation on the priorities and spending of the council.
- 5.2 A Residents' Survey was undertaken during Summer 2017 and has informed the Council's response to the financial projections in the updated MTFS. Detailed budget proposals for 2018/19 were widely publicised and have been subject to review by the Service Committees.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on	Director of Finance and Business Improvement

	the allocation of resources to all objectives of the strategic plan.	
Risk Management	Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. Specific risks are set out in Appendix A.	Director of Finance and Business Improvement
Financial	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.	Director of Finance and Business Improvement
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement
Legal	The Council has a statutory obligation to set a balanced budget and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Director of Finance and Business Improvement
Privacy and Data Protection	No implications.	Director of Finance and Business Improvement
Equalities	The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will	Director of Finance and Business Improvement

	achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	
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8. REPORT APPENDICES

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

- Appendix A: Budget Strategy Risks
-

9. BACKGROUND PAPERS

None.

Budget Strategy Risks

Summary

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

Likelihood	5					
	4					
	3		B	G,L,M		
	2		E	C,F	A,D, H	J
	1		I,K			
		1	2	3	4	5
		Impact				

- A. Failure to contain expenditure within agreed budgets
- B. Fees and Charges fail to deliver sufficient income
- C. Commercialisation fails to deliver additional income
- D. Planned savings are not delivered
- E. Shared services fail to meet budget
- F. Council holds insufficient balances
- G. Inflation rate predictions underlying MTFS are inaccurate
- H. Adverse impact from changes in local government funding
- I. Constraints on council tax increases
- J. Capital programme cannot be funded
- K. Increased complexity of government regulation
- L. Collection targets for Council Tax and Business Rates missed
- M. Business Rates pool / pilot fails to generate sufficient growth

Budget Strategy Risk Register 2017/18

The following risk register sets out the key risks to the budget strategy 2017/18 onwards. The register sets out the consequences of each risk and the existing controls in place.

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
A 117	<p>Failure to contain expenditure within agreed budgets</p> <p>The Council overspends overall against its agreed budget for the year</p>	<p>Failure to meet the budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.</p>	<ul style="list-style-type: none"> - Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2017/18. - Strong controls over expenditure and established process for recovering from overspends 	4	2	8
B	<p>Fees & Charges fail to deliver sufficient income</p> <p>Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.</p>	<p>The total value of all Council income from fees and charges is in excess of £16 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.</p>	<ul style="list-style-type: none"> - Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised. 	2	3	6
C	<p>Commercialisation fails to deliver additional income</p> <p>The commercial activities currently being delivered and projected in the MTFs do not</p>	<p>The medium term financial strategy includes a contribution from commercial opportunities, so any shortfall would have an impact on the overall strategy.</p>	<ul style="list-style-type: none"> - The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but 	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	deliver the expected level of income.	Income generation from commercial activities supports the revenue budget and is required in order to pay back capital investment.	<p>available to cover short term losses.</p> <ul style="list-style-type: none"> - Individual risks associated with specific projects within commercialisation strategy will be assessed, both as part of the project appraisal process and during the course of delivering the projects. - Decision made to outsource the management of the Mote Park Café from Autumn 2017. 			
118 D	<p>Planned savings are not delivered</p> <p>Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget</p>	<p>The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation.</p> <p>Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<ul style="list-style-type: none"> - The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process. - Savings proposals are separately identified and monitored in the Council's general ledger. - The ability to achieve the targeted savings is reported quarterly to Corporate Leadership Team and to Service Committees. 	4	2	8
E	<p>Shared Services</p> <p>Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.</p>	<p>Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<p>The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.</p>	2	2	4

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
F	<p>Insufficient Balances Minimum balance is insufficient to cover unexpected events</p> <p>OR</p> <p>Minimum balances exceed the real need and resources are held without identified purpose with low investment returns</p>	<p>Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves.</p> <p>The Council would not gain best value from its resources as Investment returns are low in the current market.</p>	<p>- The Council has set a lower limit below which General Fund balances cannot fall of £2 million.</p> <p>- At the beginning of the 2016/17 financial year General Fund balances stood at £4.6 million.</p>	3	2	6
119 ^G	<p>Inflation rate predications underlying MTFS are inaccurate Actual levels are significantly above or below prediction</p>	<p>Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.</p> <p>Services have supported the budget strategy through savings. Levels below those expected would result in an increase in balances or unused resources that could be used to achieve strategic priorities.</p>	<p>- Allowances for inflation are developed from three key threads:</p> <ul style="list-style-type: none"> ○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally <p>- MTFS inflation projections are based on the government's 2% target but CPI is now well above this level..</p>	3	3	9
H	<p>Adverse impact from changes in local government funding Unexpected shocks lead to changes in Local Government funding. Government strategy fails to address economic challenges, such as those which could arise from Brexit.</p>	<p>The Council will no longer receive Revenue Support Grant (RSG) after 2016/17 and will be subject to 'negative RSG' in 2019/20. The government has now announced that it will look at options for dealing with negative RSG.</p>	<p>- The Medium Term Financial Strategy to 2022/23 includes an adverse scenario which allows for a significant impact on the Council's resources,</p> <p>- The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.</p>	4	2	8
I	<p>Constraints on council tax increases The limit on Council Tax increases means that the Council must manage expenditure</p>	<p>The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be</p>	<p>- Planning for the budget 2018/19 has been based upon a £4.95 (2.06%) increase, as agreed by Policy and Resources Committee at its meeting on</p>	2	1	2

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	pressures even if these potentially give rise to cost increases greater than 2% per annum.	absorbed by making savings elsewhere.	25 July 2017 and by full Council at its meeting on 25 October 2017. - The Government has now increased the referendum cap for 2018/19 from £4.95 / 2% to 3%..			
J 120	Capital Programme cannot be funded Reduction or total loss of funding sources means that the capital programme cannot be delivered	The main sources of funding are: <ul style="list-style-type: none"> ○ New Homes Bonus ○ Capital Grants ○ Prudential borrowing ○ Developer contributions (S106) A reduction in this funding will mean that future schemes cannot be delivered.	- Council has been able to fund the capital programme without recourse to borrowing so far, - Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria. - Local authorities continue to be able to access borrowing at relatively low cost through the Public Works Loan Board but there is a risk that this may be subject to restrictions in future.	5	2	10
K	Increased complexity of government regulation Complexity of financial and other regulations along with increasing delays in providing guidance reduce the ability of the Council to identify risks at an early stage.	On a small number of occasions the financial consequences of future events are likely to be significant. Failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy. In general these events bring consequences to other agencies and external relationships.	- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents. - Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.	2	1	2
L	Business Rates & Council Tax collection Council fails to maintain collection targets for business rates and council tax	Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies	- The Council has a good track record of business rates and Council Tax collection. - Steps are taken to maximise collection rates, such as active debt collection, continual review of	3	3	9

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		<p>in relation to taxes not yet collected.</p> <p>Business rates due are in excess of £60 million for 2017/18.</p> <p>Council tax due is in excess of £80 million per annum.</p>	<p>discounts, etc.</p> <p>- Nonetheless, increasingly difficult trading conditions for some businesses may lead to a deterioration in collection performance.</p>			
121 M	<p>Business Rates pool (17/18) / pilot (18/19)</p> <p>Changes to rateable value (RV) or instability of business rates growth within the pool/pilot may not generate projected levels of income</p>	<p>Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.</p>	<p>- The pool (pilot wef 18/19) is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of pool increased from £5.1m to £7.5m in 2017/18.</p> <p>- The Council applied successfully with other Kent authorities to take part in a 100% Business Rates Retention pilot in 2018/19. This will mean Kent & Medway retaining a further £25m of business rates growth.</p> <p>- Provisions have been made when projecting business rates income for bad debts and losses on appeal so any loss of income would relate to the excess over the provisions already made.</p>	3	3	9

Impact & Likelihood Scales

RISK IMPACT

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

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RISK LIKELIHOOD

Type	Probability	Detail description
Almost certain (5)	90%+	Without action is likely to occur; frequent similar occurrences in local government/Council history
Probable (2)	60%-90%	Strong possibility; similar occurrences known often in local government/Council history
Possible (3)	40%-60%	Might occur; similar occurrences experienced in local government/Council history
Unlikely (2)	10%-40%	Not expected; rare but not unheard of occurrence in local government/Council history
Rare (1)	0%-10%	Very unlikely to occur; no recent similar instances in local government/Council history

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Agenda Item 18

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

19 March 2018

Appointment to Enforcement Sub-Committee established by a Memorandum of Understanding in relation to the Developments at Brunswick Street and Union Street

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

Executive Summary

This report seeks to secure the appointment of an independent person to the Enforcement Sub-Committees established pursuant to Memorandums of Understanding which will oversee the delivery and implementation of the planning mitigation required for the Council's proposed developments at Brunswick Street and Union Street.

This report makes the following recommendations to this Committee:

1. That the Committee notes the requirement to appoint an independent person to the Enforcement Sub-Committees envisaged by the Brunswick Street and Union Street Memorandums of Understanding.
2. That the Committee agrees either the appointment of the independent person or the process for making an appointment set out in the report (as the case may be).

Timetable

Meeting	Date
Audit, Governance and Standards Committee	19 March 2018

Appointment to Enforcement Sub-Committee established by a Memorandum of Understanding in relation to the Developments at Brunswick Street and Union Street

1. INTRODUCTION AND BACKGROUND

- 1.1 Maidstone Borough Council will shortly (circa June 2018) be commencing two developments to provide a mix of affordable homes, homes for sale and homes for rent at Brunswick Street and Union Street. It is therefore landowner, developer and local planning authority in relation to these developments.
- 1.2 The law allows a local planning authority to grant planning permission to itself. On 19 December 2017, the Council's Planning Committee resolved to grant planning permission for its proposed developments at Brunswick Street (planning ref. 17/504632/FULL) and Union Street (planning ref. 17/504428/FULL) subject to conditions and a legal agreement.
- 1.3 In such situations where the Council is landowner, developer and the enforcing planning authority, the Council cannot secure the required planning mitigation in the same way that it would be by a third party landowner/developer who has entered into a planning obligation with the Council pursuant to Section 106 of the Town & Country Planning Act 1990. Although this is a matter yet to be resolved by the courts, Leading Counsel has advised that a solution which best fits these circumstances is to have a Memorandum of Understanding ("MoU") secured pursuant to other statutory powers which reflects the protections envisaged by Section 106 and is made between the landowning function and the planning decision making function of the Council. Two such MoUs have now been drawn up for the proposed developments at Brunswick Street and Union Street respectively.
- 1.4 As part of the Council's requirements to be open, transparent and accountable each MoU proposes the establishment of an Enforcement Sub-Committee that will ensure that the planning mitigation secured by the MoU is realised.
- 1.5 The membership of this Committee requires an independent person who is neither an employee nor an elected Member of Maidstone Borough Council to sit on the Enforcement Sub-Committee.
- 1.6 It is envisaged that the Enforcement Sub-Committee will meet, as a minimum, on three occasions: on commencement of the developments; on first occupation; and on practical completion of the affordable housing.
- 1.7 The Enforcement Sub-Committee will be a stand-alone Committee, created purely for the purpose of monitoring compliance with the MoU, to resolve any disputes or differences and confirm the discharge of the planning obligations created by the MoU. It will not therefore report into any other Committee and will not form part of the wider Maidstone Borough Council committee structure.

1.8 It is appropriate, given the remit of the Audit Governance and Standards Committee, for it to appoint the independent person. The independent person must be:

- Neither an employee nor an elected Member of Maidstone Borough Council
- Experienced in working within the governance framework of public bodies
- Able to assimilate and effectively analyse information in order to reach sound judgements
- Able to demonstrate an ability to work effectively with others to achieve collective decisions, while having the strength of character to ensure independence of thought and judgement.

It is not anticipated that the independent person will require specialist technical planning skills or qualifications.

1.9 It is proposed that the position may be offered to a member of the Audit Governance and Standards Committee who meets the requirements in paragraph 1.8 above or, in the absence of such suitable person or such person not being agreeable to taking the role, to advertise the position. A short list for consideration by the Audit Governance and Standards Committee would then be drawn up by the Director of Finance and Business Improvement in consultation with the Chairman.

2. AVAILABLE OPTIONS

- 2.1 Option 1 - The Committee notes the requirement set out in this report and agrees either the appointment of the independent person or the process for appointing an independent person (as the case may be).
- 2.2 Option 2 - The Committee may propose alternative arrangements for appointing an independent person.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 Option 1 – It is recommended that the Committee notes the requirement set out in this report and agrees either the appointment of the independent person or the process for appointing an independent person (as the case may be).

4. RISK

- 4.1 The arrangements described in relation to the Brunswick Street and Union Street developments minimise the risk of non-compliance with planning requirements.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 No public consultation is required. Professional advice has been obtained on the matters described in the report from Leading Counsel.
-

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 Once a process is agreed for appointing the independent person to the Enforcement Sub-Committee, this will be enacted and an appointment made either at the meeting or at the next available meeting of the Audit Governance and Standards Committee.
-

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	There are no direct impacts on corporate priorities.	Director of Finance and Business Improvement
Risk Management	The arrangements set out in this report themselves serve to minimise some of the risks associated with the Brunswick Street and Union Street developments.	Director of Finance and Business Improvement
Financial	Expenses incurred in appointing the independent person and reimbursing him/her can be met from within existing Planning Service budgets.	Director of Finance and Business Improvement
Staffing	None.	Director of Finance and Business Improvement
Legal	As advised pursuant to advice from Leading Counsel the arrangements set out in this report ensure	Team Leader (Planning) – Mid Kent Legal Services

	compliance with planning legislation and ensure that the Council is operating in an open, transparent and accountable manner.	
Privacy and Data Protection	No implications.	Director of Finance and Business Improvement
Equalities	No implications.	Director of Finance and Business Improvement

8. REPORT APPENDICES

None.

9. BACKGROUND PAPERS

Memorandums of Understanding for the developments at Brunswick Street and Union Street.