

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

#### **MINUTES OF THE MEETING HELD ON 18 MARCH 2019**

**Present:** Councillor McLoughlin (Chairman) and  
Councillors Bartlett, Coulling (Parish Representative),  
Cox, Daley, Harvey and Purle

**Also Present:** Ms Elizabeth Jackson, External Auditor,  
Grant Thornton

82. **APOLOGIES FOR ABSENCE**

It was noted that apologies for absence had been received from Councillors Perry, Titchener (Parish Representative) and Webb.

83. **NOTIFICATION OF SUBSTITUTE MEMBERS**

There were no Substitute Members.

84. **MR CHRIS HARTGROVE**

The Chairman welcomed Mr Chris Hartgrove, Interim Head of Finance, to his first meeting of the Committee.

85. **URGENT ITEMS**

There were no urgent items.

86. **NOTIFICATION OF VISITING MEMBERS**

There were no Visiting Members.

87. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

88. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

89. **EXEMPT ITEMS**

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

90. MINUTES OF THE MEETING HELD ON 14 JANUARY 2019

**RESOLVED:** That the Minutes of the meeting held on 14 January 2019 be approved as a correct record and signed.

91. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

92. COMMITTEE WORK PROGRAMME 2019/20

Mr Mark Green, the Director of Finance and Business Improvement, said that the Officers were putting together the Committee Work Programme for the 2019/20 municipal year. The Work Programme would be reported to the meeting of the Committee scheduled to be held on 30 July 2019, and if Members wished to include items in the Work Programme, they should let the Officers know.

93. HOUSING BENEFIT GRANT CLAIM

Mr Mark Green, Director of Finance and Business Improvement, reminded Members that, at the last meeting of the Committee, consideration was given to a report summarising the work undertaken by Grant Thornton, the External Auditor, to certify the Housing Benefit Subsidy Claim submitted by the Council for 2017/18.

Mr Green explained that the External Auditor's certification letter had now been received confirming that they had certified the Council's Housing Benefit Subsidy Claim for the financial year 2017/18 relating to the subsidy claimed of £45.4m.

It was noted that the certification work had identified a number of errors and as a consequence a qualification letter was issued by the External Auditor. However, the errors identified had no impact on the net value of the Council's claim.

In response to questions, Mr Green advised the Committee that the Housing Benefit Subsidy Claim was a huge claim and it was not unusual for errors to be identified due to the volume of transactions. The level of error identified did not indicate any significant underlying control weaknesses or anything untoward. The additional audit fees incurred (£10k subject to approval by PSAA Limited) could be managed within existing budgets, and it was hoped that additional audit fees would not be incurred again in future years.

**RESOLVED:** That the Housing Benefit Certification letter, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted.

#### 94. CONTRACT MANAGEMENT UPDATE

The Chairman welcomed Uche Olufemi, Contracts and Compliance Officer for leisure and culture contracts, to the meeting.

Mrs Georgia Hawkes, Head of Commissioning and Business Improvement, introduced her report setting out details of progress on the planned improvements to contract management across the Council following an Internal Audit review completed in November 2018.

Mrs Hawkes advised the Committee that:

- Reports on contract management arrangements and planned improvements had been submitted to the Committee in September 2017 and November 2018. In the most recent report Members were informed that the highest value contracts were being well managed, but an Internal Audit report on contract management had returned a Weak level of assurance rating and concluded that whilst there was good practice in the management of leisure and culture contracts, improvements were required corporately.
- Since that time, positive progress had been made; for example, standard contract documents had been created by Mid-Kent Legal Services and put onto the Intranet for all Officers to use. Quarterly spend analysis was being undertaken by the Procurement Team to ensure contracts were in place where they should be and procurement was being carried out in line with the requirements of the Council's Constitution. It was recognised that good contract management was essential to the delivery of the Council's objectives so a risk and management actions for contract management had been drafted for inclusion in the Council's corporate risk register.
- In addition, temporary staffing arrangements had been put in place to ensure that staff resources were available to deliver the actions required to address the findings of the Internal Audit report and improve contract management across the Council.
- The Contracts and Compliance Officer for leisure and culture contracts had taken on additional responsibilities for three months from March 2019 to deliver improvements in the corporate control of contract management. An additional temporary staff resource was being recruited to ensure that the monitoring and management of leisure and culture contracts was not detrimentally affected.
- From 1 April 2019, the full substantive role of the Procurement and Contracts Manager would be covered on a temporary basis until 31 December 2019. This arrangement would allow further exploration of potential closer working opportunities with other Councils whilst ensuring that there was additional resource and oversight given to contract management arrangements at management level.

- Looking at the longer term, consideration was being given to whether a permanent role covering the corporate elements of contract management, including ensuring good practice in the management of delivery of contracts as well as oversight of the use of contract documents, was required.
- Improvements which were planned for implementation within the next three months included:

Introduction of corporate contract management guidance;  
 Delivery of training on good contract management and the new guidelines;  
 Introduction of improved processes for better central procurement and contract document oversight and control;  
 Review of all existing key contracts to confirm that exit plans are a requirement and are in place; and  
 Introduction of a central digital repository for completed and signed contract documents.

In response to questions, the Officers explained that:

- In terms of risk management, a risk had been drafted for inclusion in the Council's corporate risk register together with actions to mitigate against any contracts not being delivered as they should i.e. to ensure good contract management. It was an overall risk so it did not reference specific contracts, but there were actions to ensure that key contracts were delivered as they should be. Consideration had been given to including a level of detail regarding individual significant risks, but the view had been taken that good management practice is necessary across all of the key contracts and measures need to be in place to ensure that none go wrong. Internal Audit reports had confirmed that the Council's key contracts were being well managed.
- There was an additional cost to recruiting an additional temporary staff resource to support the Contracts and Compliance Officer for leisure and culture contracts whilst that post holder takes on additional corporate responsibilities, and a budget had been identified for this.
- There were checks in the system to address the risks associated with placing orders for third party service or product procurement and the payment of invoices. Placing orders was subject to limits prescribed on the Council's Agresso accounting system so it would not be possible to place an order without the proper authorisations and there were further checks when invoices were received and payments made. The whole process was also subject to internal audit.
- In terms of contractual linkage to payments, the Council had contract guidelines which prescribed the contracts that should be in place at different levels. Depending upon the value of the contract, quotations had to be obtained or a tendering process undertaken. A contract had to be in place for purchases in accordance with the Council's Contract

Procedure Rules. Robust processes were in place to make sure that payments were not made unless a proper contract was in place. The Procurement and Contracts Team was involved in the procurement of all high value outsourced contracts.

- The Contract Manager or whoever had client responsibility would be the person who signed-off invoices subject to authorisation limits and there would have been processes in place before sign-off whereby the contract had been awarded in accordance with the Contract Procedure Rules.
- In terms of whether sufficient controls were in place to prevent someone putting in place a contract and signing-off invoices against it, the organisation was of sufficient size to achieve separation of responsibility. The Procurement Team oversee the process of awarding all material contracts.

The Committee noted the progress made in improving contract management across the Council, and the planned actions, and asked for a further update in six months' time.

**RESOLVED:** That the progress made in improving contract management across the Council, and the planned actions, be noted, and that provision be made in the Committee Work Programme for a further update in six months' time.

95. INTERNAL AUDIT & ASSURANCE PLAN 2019/20

Mr Rich Clarke, Head of Audit Partnership, introduced his report setting out the proposed Plan for Mid-Kent Audit's work at Maidstone Borough Council during 2019/20, including the proposed audit and assurance project work and assurance non-project work. The report also set out the principles which would guide the External Quality Assessment of the Internal Audit Service, due before the end of 2019/20.

It was noted that:

- The Public Sector Internal Audit Standards (the Standards) required an Audit Service to produce and publish a risk based Plan at least annually for approval by Members. It was necessary to consider input from senior management and Members.
- Although the Plan had been the subject of broad consultation with management, it had been compiled independently and without being subject to inappropriate influence.
- The Internal Audit Team had just concluded the consultation phase of a planned restructure. The aim was to have the new structure in place by 1 April 2019. Currently there was a degree of doubt on the precise extent and arrangement of the Team, but it was likely that there would be 1,865 days available across the Partnership for 2019/20. The total number of days was divided between the Partner

authorities in the proportions set out in the collaboration agreement, which meant that 540 days were available for Maidstone. The Head of Audit Partnership was of the view that the Partnership currently had sufficient resources to deliver the Plan and a robust Head of Audit Opinion.

In response to questions, Mr Clarke explained that:

- In terms of risk and the impact of potential disruption due to Brexit and IT failure for various reasons on business continuity for the Internal Audit Team in particular, the Team was not as reliant on printed material as might be expected. The Team's main software was cloud based and members of the Team were used to travelling between the Partner authorities or working from home, but ultimately the Team was reliant on the information provided to it to deliver the work. With regard to IT network security, cyber security had been a high priority risk for many years so IT Network Security was a high priority audit project in 2019/20 and would remain so. In addition, Business Continuity was a medium priority project in the Audit and Assurance Plan.
- It was the intention to seek one External Quality Assessment across the whole Partnership rather than individual assessments for each authority. It was considered that one assessment would provide reasonable conclusions for all four Partner authorities.
- The results of the consultation and details of the new staff structure for Mid-Kent Audit would be reported to the Committee in July 2019 as part of the annual reporting.

During the discussion:

- A Member drew attention to the risk that, notwithstanding the move to electronic payments, it might be necessary to continue to take cash payments due to concerns about the use of CCTV for staff safety and security reasons and the possibility of people's personal details on payment cards being captured in some way by the cameras. The Head of Audit Partnership said that he would raise this issue with the member(s) of the Internal Audit Team who would carry out the planned review of Customer Services.
- A Member referred to the Audit Universe (a running record of all services at the Council that the Internal Audit Team might examine) and its current arrangement, and asked that the planned Business Continuity, Contract Management, IT Backup and Recovery and Procurement audit projects be undertaken during 2019/20. The Head of Audit Partnership said that the Internal Audit Team would be following up recommendations from earlier reviews and a mid-year update would be submitted to the Committee in November 2019. However, a brief update report could be submitted to each meeting of the Committee on the work undertaken recently to provide an

opportunity for Members to comment on changes in priorities, including the prioritisation of the four service areas mentioned above.

- It was suggested that new entries to the Audit Universe or changed risks should be identified in some way in future. The Head of Audit Partnership undertook to do this by way of asterisks.

**RESOLVED:** That

1. The Internal Audit and Assurance Plan for 2019/20 be approved subject to an update report being submitted to each meeting of the Committee on the audit work undertaken recently to provide an opportunity for Members to comment on changes in priorities.
2. 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 be noted.
3. The Head of Audit Partnership's assurance that the Plan is compiled independently and without inappropriate influence from management be noted.
4. The proposed criteria for commissioning an External Quality Assessment of the Internal Audit Service be noted.

96. EXTERNAL AUDITOR'S AUDIT PLAN 2018/19

Ms Elizabeth Jackson presented the External Auditor's Audit Plan for delivering the audit of the 2018/19 financial statements and value for money conclusion to meet the statutory deadline for the publication of audited local government accounts (31 July 2019). The report included details of the significant risks identified, the concept of materiality and the anticipated audit fee.

In response to questions, Ms Jackson explained that the External Auditor had no control over the way that materiality was calculated. Materiality at the planning stage of the audit was £1.8m which equated to 2% of the Council's prior year gross expenditure for the year. Housing Benefit was included because it formed part of the Council's expenditure for the year. If the level was set lower, then it would be necessary to undertake more work and the audit fee would increase.

**RESOLVED:** That the External Auditor's Audit Plan for the year ending 31 March 2019, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted.

97. EXTERNAL AUDIT PROGRESS REPORT - MARCH 2019

Ms Elizabeth Jackson presented the report of the External Auditor on the progress to date against the 2018/19 audit plan. The report also provided a summary of emerging national issues and developments of relevance to the local government sector.

Ms Jackson advised the Committee that:

- Some early substantive work had been undertaken to ease the burden on the accounts phase of the audit from mid-June onwards with the following testing carried out for months 1 to 9:

Operating expenses sample;  
Revenue testing;  
Payroll testing of starters and leavers; and  
Operating balances reconciliation

- All of the planning work was complete and there were no issues arising from any of the work undertaken to date that needed to be reported back to the Committee charged with governance.

**RESOLVED:** That the External Auditor's progress report, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted.

#### 98. 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.

Mr Green explained that:

- The two key risks highlighted in the report were continued uncertainty about future local government funding arrangements and the potential financial implications of a disorderly Brexit.
- In terms of changes to the local government funding regime, the government had now given some indications about the architecture of the new system. However, the amount of funding to be distributed between local authorities depended on this year's spending review.
- The Council now depended for its revenue income largely on Council Tax and locally-generated fees and charges. However the Council did retain a proportion of the business rates that it collected. The exact amount of the Council's share depended on decisions made by central government. It was this element of the Council's income that was most at risk from changes in the local government funding regime.
- For planning purposes, the Council, following the lead of the Kent Resilience Forum, was continuing to prepare on the basis that there might be a 'no deal' Brexit on 29 March. This had already involved incurring additional costs, and would certainly involve significant further costs if this outcome materialised. Costs included staff overtime and additional contract costs to maintain key services such as waste collection.



- There might be adverse longer term effects on the economy from Brexit, with a knock-on impact for local authorities. This would affect both the Council's costs, with the risk of having to spend more on services like homelessness, and revenues, with a downturn in the economy affecting income from parking, planning fees and the Council's commercial property holdings.
- The presentation of the risks had been amended to give an indication of the financial value of the risks and to give an idea of the order of magnitude of some of the risks.

In response to a question about timescales, Mr Green explained that typically risks over the coming year would be examined, but longer term risks should not be ignored, so it was necessary to consider the whole of the five year period covered by the Medium Term Financial Strategy for this type of exercise.

During the discussion, it was suggested that a visual presentation of the results of the methodology would make it easier to understand.

**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.

99. DURATION OF MEETING

6.30 p.m. to 8.05 p.m.