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Appendix II

Councillor Steve McLoughlin
Chair of the Audit, Governance and Standards Committee
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Dear Cllr. McLoughlin,

Maidstone Borough Council Financial Statements for the year end 31 March 2016

Understanding how the Audit, Governance and Standards Committee gains assurance from management

To comply with International Auditing Standards, we need to establish an understanding of how the Audit, Governance and Standards Committee, as the Governing Body, gains assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as the Audit, Governance and Standards Committee Chair with your responses to the following questions.

- 1 How does the Audit, Governance and Standards Committee oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud in the organisation (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Audit, Governance and Standards Committee gain assurance that all relevant laws and regulations have been complied with?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

I have attached a separate schedule which explores these areas in more detail, and this is included as an Appendix. Could you please complete this schedule and return it to me at your earliest convenience.

For information, we are also required to make enquiries of management and have communicated with Paul Riley in his role as Section 151 Officer to obtain these responses. If you could provide us with the required responses by the end of May it would be most appreciated. If you have any queries then do not hesitate to contact me on the details below.

Yours sincerely

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For Grant Thornton UK LLP

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Response from Audit Committee Chair

Fraud risk assessment

Auditor question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	<p>It is considered that there is no direct incentive or motivation for officers to fraudulently manipulate the accounts.</p> <p>Furthermore the council has assessed the risk of material misstatement in the financial statements due to fraud and concluded that robust procedures are in place to ensure that this risk does not materialise. This has been determined through regular presentations to members on financial and audit matters and a conscious effort made by officers. The following management processes have allowed the Council to arrive at this conclusion:</p> <ul style="list-style-type: none"> • The Council's constitution tasks service managers with control of financial resources. • Quarterly reporting of budget monitoring along with the monitoring of financial performance on other balance sheet items is formally reported to the Corporate Leadership Team and to Service Committees. • Risk assessment of the final accounts process and peer review of material elements of the statements by senior officers. • Presentation of the draft financial statements to the Audit, Governance and Standards Committee for review and challenge.
What are the results of this process?	Awareness and vigilance amongst members and officers. No specific risks have been identified to date.
What processes does the Council have in place to identify and respond to risks of fraud?	<p>Procedures are in place to ensure compliance with financial regulations and contract procedure rules. These elements of the Council's constitution formally identify the procedures and levels of authority required in relation to financial transactions to reduce the risk of fraud. All financial systems maintained by the Council are subject to an annual review by Internal Audit and are monitored by the Head of Finance & Resources who takes responsibility for approving all contractual commitments greater than £75,000 All payments greater than £40,000 are approved by the Chief Accountant, Head of Finance and Resources or s151 Officer. A dedicated fraud team is in place to identify and respond to fraud relating to Benefits and Council Tax fraud.</p> <p>The council also has a whistle blowing charter and anti-fraud and corruption policy in place. The whistle-blowing charter was reviewed and updated during 2015/16.</p>

Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	No specific fraud risks have been identified in respect of internal Council business. The dedicated fraud team has identified and investigated a considerable number of Benefit frauds and improper applications for Council Tax Single Person Discount.
Are internal controls, including segregation of duties, in place and operating effectively?	Yes. The Corporate Leadership Team undertakes an annual review of internal controls and this is reported in the Annual Governance Statement. The most recent report to the Audit Committee on 20 July 2015 contained the Head of Audit Partnership's opinion that the Council's system of internal control accords with proper practice, the corporate governance framework complies in all significant respects with best practice guidance and the risk management processes are effective.
If not, where are the risk areas and what mitigating actions have been taken?	No specific risk areas have been identified.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	Whilst performance targets exist, these are not directly linked to remuneration and are not otherwise considered to present any incentive for senior officers to fraudulently manipulate the accounts through override of controls.
Are there any areas where there is a potential for misreporting?	None have been identified.
How does the Governing Body exercise oversight over management's processes for identifying and responding to risks of fraud?	The committee place reliance on the work of internal audit to highlight any concerns over management's processes. Internal audit operate independently of management and comply with all relevant professional standards, and the Audit, Governance and Standards committee are responsible for reviewing the competence of the internal audit function, approving the annual plan and ensuring that the team is adequately resourced to deliver this. The committee also exercise oversight through regular examination of the accounts, budgets, strategic risk register and update reports.
What arrangements are in place to report fraud issues and risks to the Governing Body?	The Head of Internal Audit provides an annual report on the work of the Internal Audit team and comments on the adequacy and effectiveness of the Council's governance framework, risk management and control. The Committee also receives an annual Benefit Fraud report. The quarterly Internal Audit reports presented to the Audit, Governance and Standards Committee also highlight the assurance levels for individual audits. The Head of Internal Audit is also able to report matters to the Audit, Governance and Standards Committee

	<p>Chair should they arise between meetings.</p> <p>The committee also considers reports from external audit and has the opportunity to question the report authors during meetings.</p>
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	The Council's constitution includes an Officers Code of Conduct which provides guidelines on the standards expected of staff. The Code of Conduct is rigorously applied and any breaches may result in the application of formal disciplinary procedures.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Council has a Whistleblowing Charter which has been refreshed during the year. The charter identifies how staff are able to report any concerns about potential fraud. The management team are open and approachable to staff who may have concerns to report. No significant issues have been reported during 2015-16.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	All Members and Senior Officers are required to complete an annual declaration of interests that includes details of any finance-related transactions with the Council. The results of this process will be included in the 2015-16 Statement of Accounts.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2015?	The dedicated fraud team has identified and investigated a considerable number of Benefit Fraud and improper applications for Council Tax Single Person Discount. Robust arrangements are in place to prevent and detect this type of fraud.

Law and regulation

Auditor question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Council uses the Monitoring Officer and the Policy and Communications Section to identify and communicate all new and changed legislation throughout the organisation. This is also a focus of internal audit reviews.
How does management gain assurance that all relevant laws and regulations have been complied with?	Compliance with legislation and action to comply where legislation will change is expected to form a part of the service plan of affected services. Any concerns regarding non-compliance are raised with the Council's Monitoring Officer or through the whistleblowing channel. The internal audit function provides additional assurance and during the course of the year has carried out a number of reviews that consider compliance with laws and regulations.
How is the Governing Body provided with assurance that all relevant laws and regulations have been complied with?	The committee is made aware of requirements through regular updates and briefings on emerging legislation. This equips members with the knowledge and awareness required to hold officers to account in relation to compliance. No concerns have been raised or brought to the committee's attention during 2015-16. The committee also considers reports from

	both Internal and External Audit throughout the course of the year which provide assurance over compliance with relevant laws and regulations.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015?	None have been identified.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Any litigation or claims brought against the council are assessed by the council's legal team. These are brought to the attention of the finance team for financial reporting purposes and accounted for in accordance with accounting standards. Ultimately any matters of significance would be reported to the Audit, Governance and Standards Committee.
Is there any actual or potential litigation or claims that would affect the financial statements?	The Council has been notified of a number of potential claims arising from former employees exposed to asbestos during their period of employment with the Council. The Council's previous insurers MMI are reviewing these claims and settlement figures will be calculated if liability is established.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No.