

## MAIDSTONE BOROUGH COUNCIL

### AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

#### MINUTES OF THE MEETING HELD ON 27 SEPTEMBER 2022

**Present:**

<b>Committee Members:</b>	<b>Councillor Bartlett (Chairman) and Councillors Cox, Forecast, Garten, Jeffery, Khadka, Knatchbull, Titchener (Parish Representative), Trzebinski and D Wilkinson</b>
<b>External Attendee:</b>	<b>Mr Paul Dossett (Grant Thornton, External Auditor)</b>

26. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Bryant.

27. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Garten was substituting for Councillor Bryant.

28. URGENT ITEMS

There were no urgent items.

29. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

30. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

31. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

32. EXEMPT ITEMS

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

33. MINUTES OF THE MEETING HELD ON 26 JULY 2022

**RESOLVED:** That the Minutes of the meeting held on 26 July 2022 be approved as a correct record and signed.

34. QUESTION AND ANSWER SESSION FOR LOCAL RESIDENTS

There were no questions from local residents.

35. QUESTIONS FROM MEMBERS TO THE CHAIRMAN

There were no questions from Members.

36. COMMITTEE WORK PROGRAMME 2022/23

The Committee considered its work programme for the remainder of the 2022/23 Municipal Year.

In response to a question, the Senior Legal Adviser, Corporate Governance, said that he had no update on the production of a new Kent Code of Conduct for Members at this stage.

**RESOLVED:** That the Committee work programme for the remainder of the 2022/23 Municipal Year be noted.

37. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

The Senior Legal Adviser, Corporate Governance, introduced his report providing an update on complaints under the Members' Code of Conduct previously reported as under consideration and received during the period 1 March to 31 August 2022. It was noted that:

- At the meeting of the Committee on 14 March 2022, it was reported that five Parish Councillor complaints were being considered. These had now been concluded. In two cases no breaches were established. In the other cases, breaches were established, and the Monitoring Officer had concluded that the complaints should be resolved by way of informal resolution with actions recommended.
- Since the last report to the Committee, four new complaints had been received against Parish Councillors. These had now been considered by the Monitoring Officer and concluded. In two cases no breaches were established. In one case, a breach was established, and the Monitoring Officer had concluded that the complaint should be resolved by way of informal resolution with actions recommended. The fourth complaint was withdrawn by the complainant and no further action was taken. Currently, there were no outstanding complaints.

In response to questions, the Senior Legal Adviser, Corporate Governance, advised the Committee that:

- Where breaches had been established, the Monitoring Officer had recommended training and mediation which seemed to have had a positive impact since no new complaints had been received since April this year.
- He would raise with the Monitoring Officer the possibility of including within future reports a table with a running total of complaints covering a period of six to twelve months and identifying whether they related to Borough or Parish Councils and the type of allegations to enable trends to be identified. If a pattern did emerge, this would be investigated by the Monitoring Officer.
- The Kent Secretaries Group had produced a draft Kent Code of Conduct for Members of Town and Parish Councils. Once the documentation was finalised,

the options for Parish Councils would be to continue with their existing Codes, adopt the new Kent Code, or adopt their own bespoke Codes of Conduct. The Monitoring Officer could encourage Parish Councils to adopt the same Code for consistency but did not have the power to compel them to do so. The question would be raised with the Monitoring Officer as an issue for consideration.

**RESOLVED:** That subject to the points raised in the discussion, the report be noted.

38. AUDIT, GOVERNANCE AND STANDARDS COMMITTEE ANNUAL REPORT 2021/22

The Interim Head of Internal Audit presented the Committee's Annual Report 2021/22. It was noted that:

- The production and presentation of an Annual Report was required by the Committee's Terms of Reference. The purpose of the report was to outline where the Committee had gained assurance during the year, particularly over areas of governance, risk management, Standards, and internal control.
- The report concluded that based on the activity during the year, the Audit, Governance and Standards Committee could demonstrate that it had appropriately and effectively fulfilled its duties during 2021/22. The Committee had continued to work in partnership with the Council's Internal and External Auditors and to receive support from Officers. This had provided robust and effective independent assurance to the Council on a wide range of risk, governance and internal control issues
- The Committee's terms of reference in relation to the promotion and maintenance of high standards of Councillor and Officer conduct had been inadvertently omitted from the report but would be included in the version to be reported to the Council.

During the discussion, it was suggested and agreed that:

A paragraph should be included within the Chairman's introduction to the report expressing the Committee's disappointment with the failure of Grant Thornton, the External Auditor, to complete the audit of the 2020/21 accounts, on which their opinion remained outstanding as at September 2022; and

The Parish Representatives should be included in the final paragraph of the Chairman's introduction to the report to thank them for their support over the last year.

In response to a question, the Interim Head of Internal Audit undertook to include reference to Members who had substituted at meetings of the Committee in future Annual Reports.

**RESOLVED:** That subject to:

The inclusion within the Chairman's introduction to the report of a paragraph expressing the Committee's disappointment with the failure of Grant Thornton, the External Auditor, to complete the audit of the 2020/21 accounts, on which their opinion remained outstanding as at September 2022;

The addition of the Parish Representatives to the final paragraph of the Chairman's introduction to the report to thank them for their support over the last year; and

The inclusion of the Committee's terms of reference in relation to the promotion and maintenance of high standards of Councillor and Officer conduct,

the Audit, Governance and Standards Committee Annual Report to Council 2021/22, which demonstrates how the Committee discharged its duties during 2021/22, be approved for submission to the Council.

39. EXTERNAL AUDIT 2020/21

The Director of Finance, Resources and Business Improvement introduced his report providing an update on progress with the audit of the 2020/21 financial statements. It was noted that:

- In an audit findings report presented to the Committee in November 2021, Grant Thornton stated that their work was substantially complete, they had identified no material adjustments that would impact upon the Council's General Fund Balance, and they anticipated issuing an unmodified audit report.
- Grant Thornton noted in their audit findings report that the cost of assets under construction at Brunswick Street and Union Street should be reclassified from Property, Plant and Equipment to Inventory. This represented a change in classification which would have no overall impact on the accounts. The Council agreed to reclassify the assets as requested and an updated version of the Statement of Accounts was subsequently sent to Grant Thornton.
- The Council was told that Grant Thornton anticipated giving an audit opinion by 31 January 2022. This did not happen and other dates that were provisionally agreed with Grant Thornton then slipped. At the last meeting of the Committee, it was reported that Grant Thornton had raised further queries that had been answered and it was hoped that they would be able to issue their opinion in time for this meeting.
- Earlier this month there had been a few queries regarding, in particular, Note 31 to the accounts relating to the Capital Financing Requirement. Information had been received the previous day from Grant Thornton about how it was proposed the Council should word the Note and this had been accepted. Grant Thornton had now indicated that they anticipated issuing a signed audit opinion the following week.

Mr Paul Dossett of Grant Thornton advised the Committee that he anticipated that the 2020/21 audit would be signed-off the following week. The 2020/21 audit also required a Value for Money piece of work. This work had been completed and would be brought back to the Committee alongside the formal finalisation of the audit process. To give wider context, approximately 55% of 2020/21 accounts had been signed-off across the sector.

In response to questions, Mr Dossett explained that:

- There were no plans to undertake more technical consultations or audit work. It was anticipated that a signed audit opinion would be issued the following week. The only things that could impact on this would be if the Council identified a problem when completing the outstanding work or if problems were identified when the accounts were rechecked by Grant Thornton. There would be a change of approach to ensure that accounting issues did not delay the 2021/22 audit.
- The delay in completing the 2020/21 audit had not been intentional or wilful and was not uncommon. If Members were unhappy with the situation, they could contact Public Sector Audit Appointments (PSAA). However, there was a significant shortage of audit firms willing to undertake local authority audits.

**RESOLVED:** That the report be noted and that the Committee's disappointment regarding the delay in completing the 2020/21 audit be recorded.

40. EXTERNAL AUDITOR'S AUDIT PLAN 2021/22

The Senior Finance Manager (Client) introduced his report setting out Grant Thornton's planned approach to completing the audit of the 2021/22 financial statements and Value for Money Conclusion. It was noted that:

- The report from Grant Thornton covered several areas including significant risks identified in their work to date, accounting estimates and the materiality limit they were planning to adopt for the audit this year.
- The report also included details of the anticipated audit fee which was £64,666 (£41,666 for the scale audit fee set by Public Sector Audit Appointments Ltd (PSAA), £14,000 to cover the impact of revised accounting standards and requirements and £9,000 for the Value for Money work). The amounts above and beyond the scale fee were subject to agreement by PSAA, and the Council would be given the opportunity to make representations about the additional charges.

Mr Paul Dossett of Grant Thornton advised the Committee that:

- The Audit Plan for 2021/22 covered the risks identified and Grant Thornton's responsibilities, and it was very similar to last year's Audit Plan and to those of other local authorities. Grant Thornton was required to set the materiality limit, which had risen slightly to reflect changes in expenditure in year, and to highlight the risks. For local government audits, the main risks related to investment property valuations and management over-ride of controls which involved the auditing of estimates and journals.
- The Audit Plan also covered Grant Thornton's approach to the Value for Money work for 2021/22. The 2020/21 Value for Money assessment did not identify any significant weaknesses. Auditors were required to consider whether the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- The only new piece of work this year related to International Standards on Auditing (UK) 315 which required Grant Thornton to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement.

In response to questions:

Mr Dossett advised Members that:

- In terms of tasks, timelines and staffing levels, a lot of the background planning had been done. The second main task was to audit the financial statements which required audit and sample testing. Grant Thornton had started some of the 2021/22 audits, but none had been signed-off yet. The 2021/22 audits were proving to be more difficult than previously, not just in terms of audit resources but in terms of accounts being prepared in time. From a resources point of view, there would continue to be challenges. To complete an audit to the level and depth that was now required was very time-consuming on the part of Grant Thornton. The aspiration was to proceed with the work as soon as possible, but no guarantees could be given as to when it would be completed. Even since work commenced on the first round of audits for this year at the beginning of July, there had been a significant turnover in staff and replacing them took time. All other firms in the market were experiencing the same problems.
- Detailed requests for samples, journals and invoices etc. would be sent to the Officers and timelines for responding agreed with them. The detail of that would not normally be included in the Audit Plan. The process was iterative by nature.
- The deadline for completion of the audit was 30 November 2022. Grant Thornton might not necessarily meet that deadline but would try to progress the audit as soon as possible. A detailed timetable could be provided once the audit had started.
- In terms of the risks associated with the valuation of the Council's pension fund liability, the processes identified in the Audit Plan for responding to the risks would be carried forward for 2022/23. He was the auditor of the Kent Pension Fund and he had completed the work necessary for Maidstone already and there would not be any delays with it.
- The Value for Money Conclusion was a statutory requirement which had to be completed every year for every audited body. If no significant issues were identified as part of the planning process or execution, the time taken to complete the assessment would be less than it would otherwise be with consequential cost implications.
- The Audit Plan was based on a combination of statutory requirements such as the Value for Money Conclusion work and International Standards on Auditing requirements such as the identification of significant risks. Most Audit Plans would look very similar. The Committee could make comments and suggestions, but as an independently appointed auditor, Grant Thornton had to execute the Plan in accordance with statutory requirements and the International Standards on Auditing.

The Director of Finance, Resources and Business Improvement advised Members that:

- The contractual arrangement Grant Thornton had was with PSAA, the appointing body, which held the firm to account in delivering the audit. The Council paid the audit fee, but PSAA was the body that procured the audit. If there was a dispute about the audit fee, the Council could make representations to PSAA, but it was PSAA that set the fee.

**RESOLVED:** That the External Auditor's Audit Plan, attached as Appendix 1 to the report of the Senior Finance Manager (Client), be noted with disappointment that the document already has a timeline that it appears will slip.

#### 41. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

The Director of Finance, Resources and Business Improvement introduced his report highlighting the risks faced by the Council in delivering the budget. The Director of Finance, Resources and Business Improvement advised the Committee that:

- Since the report was written, the position had changed. At the time of writing, there were two additional heightened risks. Firstly, a very substantial overspend was anticipated on the cost of providing temporary accommodation which it might not be possible to offset through savings elsewhere. Secondly, the effects of inflation. The assumption was that the Council Tax referendum limit would remain at 2%. With inflation running at 10%, this would create a large budget gap requiring substantial savings.
- The Government's mini budget also had implications for the Council. Firstly, the cost of borrowing from the Public Works Loan Board had gone up to over 5% which had implications for the funding of the Capital Programme. Secondly, the Bank of England appeared to envisage a risk of increased inflation because of the measures contained in the mini budget.
- In addition, the Chancellor had announced that the existing three year spending review would be retained which, in real terms with inflation running at 10%, meant a cut in funding which would be challenging.

In response to questions, the Director of Finance, Resources and Business Improvement advised the Committee that:

- The number of households requiring temporary accommodation had almost doubled from 100 to 180. It was necessary to deliver a balanced budget, but, at the same time, it was recognised that some employees might be struggling financially. The Council would meet its obligation to pay the national living wage, but it was a balancing exercise.
- The Capital Programme and the viability of schemes given the increased cost of borrowing would be reviewed as part of the annual budget process. The agreement with Aviva Life and Pensions UK Ltd to forward borrow £80m at an agreed rate of 2.89% over a 50-year term was a firm commitment.
- The additional pressures associated with the increase in the numbers presenting as homeless and requiring temporary accommodation were encapsulated in risk A (Failure to Contain Expenditure within Agreed Budgets) but could be a separate risk.

During the discussion, serious concerns were expressed about the implications for the Council of the current economic situation particularly in terms of the impact of higher levels of inflation on the revenue budget and the funding of the Capital Programme and the Council's pension liability. The Director of Finance, Resources and Business Improvement undertook to reflect on these concerns when updating the Budget Strategy Risk Register and Risk Matrix.

**RESOLVED:** That the updated risk assessment of the Budget Strategy be noted subject to the points raised in the discussion which will be reflected upon by the Director of Finance, Resources and Business Improvement when updating the Budget Strategy Risk Register and Risk Matrix.

42. DURATION OF MEETING

6.30 p.m. to 8.05 p.m.

Note: The meeting adjourned from 6.45 p.m. to 7.05 p.m. for technical reasons.