

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 25 SEPTEMBER 2023

Present:

Committee Members:	Councillor Cox (Chairman) and Councillors Coulling (Parish Representative), Forecast, Harper, Jones, Knatchbull, Spooner, Titchener (Parish Representative) and Trzebinski
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26. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Bartlett and Perry (Cabinet Member for Corporate Services).

27. NOTIFICATION OF SUBSTITUTE MEMBERS

Councillor Spooner was present as Substitute Member for Councillor Bartlett.

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 24 JULY 2023

RESOLVED: That the Minutes of the meeting held on 24 July 2023 be approved as a correct record and signed subject to the inclusion of the following paragraph in the preamble to the resolution:

Grant Thornton was asked to estimate the impact of flexing the pensions assumptions to the right or to the left of the PWC range and invited to submit the qualifications that would be applied if the 2021/22 accounts were closed immediately.

34. QUESTIONS AND ANSWER SESSION FOR LOCAL RESIDENTS

There were no questions from Local Residents.

35. QUESTIONS FROM MEMBERS OF THE COUNCIL TO THE CHAIRMAN

There were no questions from Members to the Chairman.

36. COMMITTEE WORK PROGRAMME 2023/24

The Committee considered its Work Programme for the remainder of the 2023/24 Municipal Year.

In response to a question, the Chairman updated the Committee on the position regarding the production of new Kent Codes of Conduct for Members.

RESOLVED: That the Committee Work Programme for the remainder of the 2023/24 Municipal Year be noted.

37. AUDIT, GOVERNANCE AND STANDARDS COMMITTEE ANNUAL REPORT

The Head of Mid-Kent Audit Partnership presented the Committee's Annual Report 2022/23. It was noted that:

- It was considered best practice for the Committee to produce an Annual Report looking back at the previous year to demonstrate to the Council how it had discharged its duties.
- 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 Committee could demonstrate that it had appropriately and effectively fulfilled its duties during 2022/23. 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 most up to date version of the Committee's terms of reference would be attached to the version of the Report to be presented to the Council.

RESOLVED: That subject to the attachment of the most up to date version of the Committee's terms of reference, the Audit, Governance and Standards Committee Annual Report to Council 2022/23, which demonstrates how the Committee discharged its duties during 2022/23, be approved for submission to the Council.

38. EXTERNAL AUDIT

The Director of Finance, Resources and Business Improvement introduced his report providing an update on progress with the audit of the 2021/22 and 2022/23 financial statements. It was noted that:

- The external audits of the 2021/22 and 2022/23 accounts were still to be completed. Whilst this was in no way an acceptable position for the Council, it was worth pointing out that it reflected the broader crisis affecting local government audit. As a result of this crisis, the Government and the National Audit Office were proposing to set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed audits for the financial years 2015/16 to the present. The current indications were that the statutory deadline for completion of the 2021/22 audit was likely to be 31 March 2024.
- At the last meeting of the Committee there had been a lot of discussion regarding the 2021/22 audit and, in particular, Grant Thornton's requirement that the Council provide an updated valuation of its pension assets and liabilities (IAS 19 report). It was agreed that Grant Thornton be asked to reconsider this request as obtaining an updated IAS 19 report would lead to additional costs for the Council and further delay to completion of the audit. However, the firm had indicated that it was not prepared to do so, and the Director of Finance, Resources and Business Improvement had concluded with reluctance that in the interests of obtaining a clean audit opinion, the Council should accede to the External Auditor's request.
- Grant Thornton had now indicated that they were close to completing the 2021/22 audit and hoped to bring an opinion to the November meeting of the Committee. There had been a suggestion at the last meeting that the Council should accept a qualified set of accounts. However, it would be a black mark for the Council to have a qualified set of accounts.
- The audit of the 2022/23 accounts was now likely to start in January 2024 and it was Grant Thornton's intention to bring an audit opinion to the Committee in March 2024.

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

- The External Auditors were appointed by Public Sector Audit Appointments (PSAA), a subsidiary of the Local Government Association, so if the Committee wished to make a complaint about the performance of the External Auditor, it should be addressed to the PSAA.
- It was beneficial to have continuity in the staff undertaking the audit and he would push for that. It was understood that the Council would have the same audit lead for 2022/23 as it had for 2021/22 which would be helpful, but Grant Thornton did have problems relating to the turnover of staff which made it difficult for them to ensure continuity.
- The issue of qualifications was relevant not just to Maidstone but to the sector as a whole. The Government was likely to set hard deadlines for completion of audits and there was speculation in the sector that Auditors might, in the worst-case scenario, issue a disclaimer of opinion and not complete the audit. It would be worth writing to the PSAA to emphasise that the Council does want to see the audit completed and a clean audit opinion obtained because he had every confidence that the accounts were sound.
- There were two types of cost that the Council would face in relation to the additional work on the 2021/22 audit. The first related to the provision of a

new report from the actuary and the second related to Grant Thornton charging extra because the work was not in their original budget. The Council would have an opportunity to challenge the extra costs with the PSAA.

- He did believe that Grant Thornton was trying hard to complete the 2021/22 audit in time.

During the discussion:

- Members expressed concern about the further delay and unnecessary additional costs associated with obtaining an updated IAS 19 report as requested by Grant Thornton and the External Auditor's policy to close the previous year's audit before starting on the next set of accounts.
- It was pointed out that Grant Thornton had now indicated that they hoped to be able to sign-off the 2021/22 accounts in time for them to be presented to the November meeting of the Committee and that it was their intention to bring an audit opinion in relation to the 2022/23 accounts to the Committee in March 2024. The Council should be robust in its response if Grant Thornton failed to meet the November deadline and made aware in good time if there was going to be any delay in the completion of the 2022/23 audit.
- It was suggested that there was a need to balance the potential reputational risk for the Council arising from delays in signing-off the accounts against the black mark the Council would have if it accepted qualifications to move forward. However, reservations were expressed about the implications of having a qualified audit opinion, potentially, for example, with regard to borrowing.
- The Committee expressed its dissatisfaction with Grant Thornton's performance and considered what options might be available to it in the future, including recourse to the PSAA.
- It was considered in the first instance that Grant Thornton should be informed that the Committee expects full audited accounts for 2021/22 in time for its November 2023 meeting which requires delivery of their report by 31 October 2023 and that the Director of Finance, Resources and Business Improvement should be kept informed of progress. Further, if the Director of Finance, Resources and Business Improvement is not satisfied with the information received, an emergency meeting of the Committee should be convened.

RESOLVED:

1. That Grant Thornton be informed that the Committee expects full audited accounts for 2021/22 in time for its November 2023 meeting which requires delivery of their report by 31 October 2023 and that the Director of Finance, Resources and Business Improvement be kept informed of progress.
2. That if the Director of Finance, Resources and Business Improvement is not satisfied with the information received, an emergency meeting of the Committee be convened.

39. 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:

- In the quarter 1 budget monitoring figures, it was reported that, based on current numbers in temporary accommodation, an overspend in excess of £800,000 was projected. Although the Council was acquiring additional properties through the capital programme, a large number of families would continue to be housed in nightly paid accommodation. The overspend could be mitigated substantially through underspends elsewhere throughout the Council, reducing the projected overspend to just under £300,000, but there was a significant risk that it might not be possible to balance the budget or even that the overspend could be higher.
- Budget planning for next year 2024/25 was well underway. A budget gap of £925,000 was projected for 2024/25 assuming that Council Tax income is increased by the maximum possible given the referendum limit and fees and charges are increased in line with inflation. Budget proposals had been put forward which would deliver sufficient savings to close the budget gap.
- There was a suggestion at the last meeting that a risk be added around the need to subsidise the affordable housing programme. He had considered this, but he had not included it as an additional risk as it was a political decision and not a risk faced by the Council from external factors.

In response to questions:

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

- There were risks already in the budget risk register around increases in expenditure beyond budgeted levels.
- Although a priority list of capital spending had not been produced specifically, the issue was addressed when the capital programme was reviewed every year. Having to increase the estimates for individual schemes might result in slippage.
- In terms of risk Q (Financial Impact from IT Security Failure), there had been a number of instances where Councils had seen their IT systems go down for weeks at a time with severe financial and service implications. The Council had security measures in place such as anti-virus software to help mitigate the risks.
- It could be argued that the risks associated with (a) the specific requirement in relation to the Affordable Housing Programme to provide the necessary subsidy for tenants and (b) temporary accommodation were covered in existing risks. However, they could be identified as specific risks to give them greater emphasis.

The Head of Mid-Kent Audit Partnership undertook to discuss with the Housing Team the merits of undertaking a piece of work on issues relating to temporary accommodation, including benchmarking.

RESOLVED: That the updated risk assessment of the Budget Strategy, provided at Appendix A to the report of the Director of Finance, Resources and Business Improvement, be noted and that a recommendation be made that the risks associated with (a) the specific requirement in relation to the Affordable Housing Programme to provide the necessary subsidy for tenants and (b) temporary accommodation be added.

40. DURATION OF MEETING

6.30 p.m. to 8.15 p.m.