

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 18 NOVEMBER 2019

Present: Councillor Harvey (Chairman) and
Councillors Adkinson, Brindle, Coulling (Parish
Representative), Cox, Daley and Perry

Also Present: Ms Elizabeth Jackson – Grant Thornton (External
Auditor)

44. **APOLOGIES FOR ABSENCE**

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

45. **NOTIFICATION OF SUBSTITUTE MEMBERS**

There were no Substitute Members.

46. **URGENT ITEMS**

The Chairman said that she had agreed to take Appendix 1 to item 11 on the agenda (External Auditor's Annual Audit Letter) as an urgent item as the Letter was not available when the agenda was published.

47. **NOTIFICATION OF VISITING MEMBERS**

There were no Visiting Members.

48. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

49. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

50. **EXEMPT ITEMS**

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

51. **MINUTES OF THE MEETING HELD ON 16 SEPTEMBER 2019**

RESOLVED: That the Minutes of the meeting held on 16 September 2019 be approved as a correct record and signed.

52. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

53. COMMITTEE WORK PROGRAMME

The Committee considered its work programme for the remainder of the Municipal Year 2019/20.

RESOLVED: That the Committee work programme for the remainder of the Municipal Year 2019/20 be noted.

54. EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER (YEAR ENDED 31 MARCH 2019)

Ms Elizabeth Jackson of Grant Thornton presented the External Auditor's Annual Audit Letter summarising the key findings arising from the work undertaken by the External Auditor for the year ended 31 March 2019 and concluding the audit process for 2018/19. It was noted that:

- The External Auditor gave an unqualified opinion on the Council's 2018/19 Statement of Accounts on 16 August 2019; and
- The External Auditor was satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

During her presentation, Ms Jackson made specific reference to the delay in issuing the audit opinion. She explained that:

- Grant Thornton alongside all other audit firms struggled to deliver the audit opinion on time this year and over 40% of local authority audits nationally were not signed off by the end of July which was the target date for auditors to give their opinions. Whilst the Borough Council had a statutory responsibility to publish its accounts whether they were audited or not by 31 July 2019, it was not a statutory requirement for external auditors to meet that deadline.
- Grant Thornton had resourcing issues due to staff shortages and sickness. The Director of Finance and Business Improvement was informed that the firm did not have a team to deliver the audit by the end of July and that other Kent audits were affected.
- When the External Audit team came on site in the middle of July to undertake the work, a number of amendments were required to the accounts. As the statutory auditor responsible for signing the audit opinion, she did not have all of the evidence required to enable her to sign off the accounts as true, fair and correct until 16 August 2019 when she issued the unqualified audit opinion. It would reflect on her professional reputation if she had signed off the accounts before completing all the work required.

- She understood that Members and Officers were very disappointed that the deadline was not met and arrangements had been put in place already for working differently next year.
- The new procurement process for local authority audit had resulted in a reduction in audit fees and with that a reduction in the number of days available for carrying out the audit. If there was a tendering exercise now, with the current regulations and workload, Grant Thornton would not be tendering for audits as they were not deliverable. She would not wish to sign off the audit without the right level of evidence.

In response to questions, Ms Jackson explained that:

- To an extent, the problems experienced were specific to the public sector and, particularly, local government where over 90% of audited bodies chose to follow the Public Sector Audit Appointments route for the procurement of audit services. Whether or not this had been successful had still to be determined.
- In terms of the additional resource required to sign off the accounts on time with an end result that the External Auditor was comfortable with, another person for ten days would have helped to deliver the audit. Discussions were taking place with the Finance Team about a different approach to the audit next year.
- The Financial Reporting Council, which regulates auditors, was also reviewing the overall audit environment.
- The External Auditor did not have staff with the appropriate experience and specialist knowledge available to complete the audit in July. They came in August when other audits had been completed.

RESOLVED: That the External Auditor's Annual Audit Letter for the year ended 31 March 2019, attached as Appendix 1 to the report of the Interim Head of Finance, be noted.

55. AUDIT PROGRESS REPORT AND SECTOR UPDATE (YEAR ENDED 31 MARCH 2020)

Ms Elizabeth Jackson of Grant Thornton presented the report of the External Auditor on the progress to date against the 2019/20 audit plan. The report also provided an update on a number of relevant emerging issues and sector developments.

Ms Jackson made specific reference to the position with regard to certification of the Council's annual Housing Benefit Subsidy claim. She explained that the External Auditor was working closely with the Revenues and Benefits Shared Service to ensure that the work is completed by the 29 November deadline. The Shared Service was doing the majority of the testing itself and the Internal Audit team had been part of the process as well. Information was still awaited from the Shared Service and the

External Auditor was liaising with the Service daily to ensure that the deadline is not missed.

In response to comments by Members, the Director of Finance and Business Improvement said that he would remind the Service of the deadline for completion of the certification work.

In response to a question by a Member as to whether it would be better to start audit planning earlier, Ms Jackson explained that due to delays in completing the certification of Housing Benefit Subsidy claims at a number of places, the External Auditor would begin planning for the 2019/20 audit in December and would issue a detailed audit plan setting out its proposed approach to the audit of the Council's 2019/20 financial statements for consideration at the next meeting of the Committee. The critical period was June/July when the External Auditor would be completing a large number of audits with a finite number of staff and so any unforeseen resourcing issues such as staff shortages and sickness would have a knock on effect.

A Member referred to CIPFA's annual CFO confidence survey which found that Local Authority Chief Finance Officers were less confident in their future financial positions than they were in 2018/19 and that for districts the greatest pressures were housing, cultural services and environmental services. The Director of Finance and Business Improvement said that he agreed about housing services being an area of concern as the Council had a responsibility to deal with people who present themselves as homeless and so it was an area over which the Council only had a certain amount of control.

RESOLVED: That the External Auditor's Audit Progress Report and Sector Update for the year ended 31 March 2020, attached as Appendix 1 to the report of the Interim Head of Finance, be noted.

56. INTERNAL AUDIT INTERIM REPORT 2019/20

The Head of Audit Partnership introduced his report summarising the progress made so far towards delivering the 2019/20 Audit and Assurance Plan approved by the Committee in March 2019.

In introducing the report, the Head of Audit Partnership advised the Committee that:

- The Internal Audit team had continued to work with full independence and had not been subject to undue pressure by Members or Officers.
- There continued to be a good response to recommendations arising from audit reviews and management was accepting of issues raised.
- In terms of resource requirements, three members of the team had moved on to other Internal Audit Services in Kent, but with the links made with contractors elsewhere, new recruits to the team and people

returning from maternity leave, it was considered that there was sufficient resource to deliver the 2019/20 Audit and Assurance Plan.

- Since the last report to the Committee in July 2019, five assurance rated reports had been issued and they all had a Sound rating which was a positive assurance rating, indicative of controls working well.
- Four high priority actions had been deferred beyond their originally agreed date, but the Internal Audit team was satisfied in all of these cases that the Officers were on top of the issues as they develop and looking forward to full implementation in due course.
- The report also covered other Audit Service work to provide assurance across the authority including risk management and counter fraud (investigations, whistleblowing and the National Fraud Initiative).
- With the agreement of the Council's External Auditor, the Internal Audit team had taken on a significant proportion of the testing required in connection with the certification of the Council's annual Housing Benefit Subsidy claim saving the Council around £8k. It was anticipated that the deadline for completion of the work would be met.
- The Internal Audit Service was required to undergo an external quality assessment at least every five years. The Audit Partnership's most recent such assessment was by the Institute of Internal Auditors in the spring of 2015. The aim was to put this work out to tender by the end of November with a view to reporting the results back to the Committee in the spring/summer of 2020 depending on the timelines of the successful tenderer. In the meantime, it was his view based on self-assessments that the Internal Audit Service continued to work in full conformance with the Public Sector Internal Audit Standards.

In response to questions by Members, the Head of Audit Partnership advised the Committee that:

- To achieve a Strong assurance rating, controls within the service needed to be well designed and operating as intended, exposing the service to no uncontrolled risk. There would also often be elements of good practice or value for money efficiencies that might be instructive to other authorities. Audit reports with this rating would have few, if any recommendations. A Sound assurance rating was a good one reflecting a service that was working well and, in an organisation looking to manage its limited resources, it was a good ambition to aim for.
- The Internal Audit Service last looked at contract management in the autumn of 2018 and the focus now was on implementing the recommendations arising from the review. Contract management, like all areas of the Council's business, remained in the Audit Universe and would be in the running for a full review in 2020/21 because at that point the actions would have been taken and the improvements embedded to an extent that a full review would see them.

- One of the advantages of working in a four way partnership was that issues of resilience were easier to manage with access to a level of experience and resources beyond that of a single local authority Internal Audit Service. It could be argued that the independence of Internal Audit was more assured in a partnership arrangement.

During the discussion on this item, the Head of Audit Partnership updated Members on the approach to dealing with allegations, including potentially malicious accusations, under the Council's Counter Fraud Policy.

RESOLVED: That the progress made so far towards delivering the 2019/20 Audit and Assurance Plan be noted.

57. MAIDSTONE PROPERTY HOLDINGS LTD - GOVERNANCE

The Director of Finance and Business Improvement presented his report updating the Committee on the outcomes of a review of the governance arrangements at Maidstone Property Holdings Ltd. It was noted that:

- In September 2016, the Council incorporated a wholly owned company limited by shares called Maidstone Property Holdings Ltd (the Company). The Company was established to hold property leased to it by the Council and to undertake other property development/management activities.
- In December 2017, the Company's structure was subject to a report by the Internal Audit team. The report identified a number of areas for improvement within the Company's governance structure and assurance mechanisms which would need to be addressed as the scope of the Company's activities expanded. A report to this Committee in November 2018 described the Internal Audit findings and referred to a forthcoming review of the Company's aims, objectives and governance structure. It was agreed that the outcomes of the review would be reported back to this Committee.
- The review, which was undertaken with the assistance of external solicitors, had resulted in confirmation of the Company's future aims and objectives, an amended draft Business Plan and various other company documents, clarity on the Service Agreement required and clarity on the different roles of the Company and the Council. The Policy and Resources Committee had agreed to recommend to Council a number of measures to implement the findings of the governance review. These recommendations would be considered by the Council at its meeting in December 2019.
- As shareholder, the Council was responsible for certain functions in respect of the Company ("reserved matters"). It was proposed that the Council delegates the function to make shareholder decisions to the Policy and Resources Committee and that the Committee delegates certain shareholder reserved matters to a nominated Officer, who, it was suggested, should be the Director of Finance and

Business Improvement. There was provision for representatives of the Council to attend and observe Board meetings. This would generally be the Director of Finance and Business Improvement who would also represent the Council at the Annual General Meeting.

During the discussion, the Director of Finance and Business Improvement undertook to make sure that information relating to Board meetings was circulated to Members of the Policy and Resources Committee as the relevant Committee. He also confirmed that it would be in order for Members of the Policy and Resources Committee to attend Board meetings.

In response to further questions, the Director of Finance and Business Improvement explained that:

- Although the Company would hold an Annual General Meeting which representatives of the Council could attend, he did not think that it would be appropriate for members of the public to attend.
- Regular reports on the activities of the Company were presented to the Policy and Resources Committee as part of the quarterly financial monitoring report. If the Audit, Governance and Standards Committee was interested in the activities of Maidstone Property Holdings Ltd, it would need to make sure provision was made in the Internal Audit and Assurance Plan.

The Head of Audit Partnership confirmed that although the Internal Audit Service was the Council's Internal Auditor, it had not been appointed as the Company's Internal Auditor. However, the way the Council used its powers to oversee and direct the Company, rather than the operations of the Company itself, was part of the Audit Universe and would be looked at in due course after a risk assessment.

RESOLVED: That the report updating the Committee on the outcomes of a review of the governance arrangements at Maidstone Property Holdings Ltd be noted.

58. TREASURY MANAGEMENT MID-YEAR REVIEW 2019/20

The Director of Finance and Business Improvement presented his report setting out the activities of the Treasury Management function for the first six months of the 2019/20 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities.

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

- The main elements of the Strategy were (a) that the Council uses cash for its capital investments rather than borrowing, and was still in the position that it had not borrowed to finance the Capital Programme, and (b) that the Council aimed to diversify its cash holdings to mitigate risks. The Council held £27.98m of investments as at 30

September 2019 and these were spread over a range of financial institutions.

- During the first six months of the financial year 2019/20, the Council had operated within the prudential and treasury indicators set out in the Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.
- It was predicted that the Council would borrow before the end of the financial year to fund the Capital Programme. Given the recent increases in rates charged by the Public Works Loan Board (PWLB), the Council would investigate a range of possible sources of borrowing in terms of finance and risk. He was confident that the Council would be able to borrow relatively cheaply to fund the Capital Programme as and when it needed to do so.

In response to a question by a Member as to whether the Council should have borrowed sooner having regard to the increased cost of PWLB borrowing, the Director of Finance and Business Improvement advised the Committee that the problem with borrowing sooner was that the Council would have been holding large cash balances and the cost of borrowing would have been more than the cash would be earning. The Corporate Finance team was keeping interest rates under review and the indications were that they would remain low for the foreseeable future. The Council continued to be able to access borrowing at relatively low cost, so it had not missed an opportunity to borrow before PWLB rates were increased.

RESOLVED:

1. That the position of the Treasury Management Strategy as at 30 September 2019 be noted.
2. That no amendments to the current procedures are necessary as a result of the review of activities in 2019/20.

59. **BUDGET STRATEGY - RISK ASSESSMENT UPDATE**

The Director of Finance and Business Improvement introduced his report providing an update on the budget risks facing the Council.

The Director of Finance and Business Improvement explained that recent government announcements had provided reassurance about the funding position for local government in the short term. However, over the medium term there continued to be uncertainty about funding arrangements. The risk of a disorderly exit from the EU, with the consequent adverse financial consequences, had receded.

In response to questions by Members, the Director of Finance and Business Improvement said that:

- Business rates were being looked at by the political parties nationally and if they were to be abolished that would be a big issue because

business rates were an important source of local government funding. There would have to be something to replace business rates if local government was to be funded properly.

- There were risks associated with the funding of the Capital Programme, but the Council continued to be able to access borrowing at relatively low cost, and he did not consider that the Council should be borrowing yet as the cost of borrowing would be more than the cash would be earning. This was a view supported by the Council's investment advisers.

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.

60. REDMOND REVIEW - CALL FOR VIEWS

The Interim Head of Finance introduced his report regarding the independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England (the "Redmond Review").

The Interim Finance Manager explained that:

- The scope of the Review was in two parts as follows:

A Strategic Call for Views focusing on what the users of accounts expect from the local authority accounts production and audit process; and

A Technical Call for Views asking for views on the detailed statutory and professional frameworks underpinning the audit and financial reporting framework.

- It was not necessary for respondents to answer every question, and it was suggested that the Council's response might focus on a range of key areas of specific local interest or concern. Potential key areas of focus included:

The "expectation gap" – a perceived difference between what users of the financial statements and other stakeholders expect from an audit and what an audit is actually required to deliver;

The current size and complexity of local authority financial statements;

The scope of the VFM opinion; and

The balance between the reduction in audit fees and quality of outputs.

- He wished to amend the recommendation to read that the Committee delegates authority to the Director of Finance and

Business Improvement in consultation with the Chairman of the Audit, Governance and Standards Committee to finalise the draft consultation response prepared by Officers (following this meeting) prior to submission in accordance with the 20 December 2019 deadline.

During the discussion on this item, reference was made to the following:

- It was essential to respond to the consultation and to respond positively.
- There was a need to remember that the prime purpose of external audit is to look at the financial state of the organisation and to avoid it becoming more complex. The Council should concentrate on what it wanted from the External Auditor as it already received detailed Internal Audit support.
- The main issue seemed to be the balance between reduced audit fees and quality of output.
- Confirmation was required that the Chairman would give appropriate weight to any comments from Members on the draft response to the consultation.

RESOLVED: That delegated authority be given to the Director of Finance and Business Improvement to finalise the Council's response to the independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England (the "Redmond Review") in consultation with the Chairman of the Audit, Governance and Standards Committee, who will receive and give appropriate weight to any comments from Members on the draft version, prior to submission in accordance with the 20 December 2019 deadline.

61. DURATION OF MEETING

6.30 p.m. to 8.00 p.m.