

## **MAIDSTONE BOROUGH COUNCIL**

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

#### **MINUTES OF THE MEETING HELD ON MONDAY 30 JULY 2018**

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

**Also Present:** Mr Matt Dean of Grant Thornton – External Auditor

6. **APOLOGIES FOR ABSENCE**

It was noted that apologies for absence had been received from Councillors Cox, Garland and Webb.

7. **NOTIFICATION OF SUBSTITUTE MEMBERS**

It was noted that Councillor Mortimer was substituting for Councillor Cox.

8. **URGENT ITEMS**

The Chairman said that he had agreed to take the following documents as urgent items as they had not been available when the agenda was published:

Appendix 1 to agenda item 18 – External Auditor’s Audit Findings Report

Appendix 4 to agenda item 18 – Letter of Representation

9. **NOTIFICATION OF VISITING MEMBERS**

There were no Visiting Members.

10. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

11. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

12. **EXEMPT ITEMS**

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

13. MINUTES OF THE MEETING HELD ON 19 MARCH 2018

**RESOLVED:** That the Minutes of the meeting held on 19 March 2018 be approved as a correct record and signed.

14. MINUTES OF THE MEETING HELD ON 22 MAY 2018

**RESOLVED:** That the Minutes of the meeting held on 22 May 2018 be approved as a correct record and signed.

15. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

16. COMMITTEE WORK PROGRAMME 2018/19

The Committee considered its work programme for 2018/19.

Mr Mark Green, the Director of Finance and Business Improvement, said that it was the usual practice to hold a briefing session before each meeting of the Committee on a topic of particular relevance to the work of the Committee. Details of the briefing sessions to be delivered during 2018/19 would be circulated within the next few days.

**RESOLVED:** That the work programme for 2018/19 be noted.

17. REFERENCE FROM DEMOCRACY COMMITTEE - CHANGES TO FINANCIAL AND CONTRACT PROCEDURE RULES

Mr Mark Green, the Director of Finance and Business Improvement, introduced the reference from the Democracy Committee explaining that, when the Democracy Committee considered some proposed changes to the Financial and Contract Procedure Rules, which had now been agreed by the Council, it was concerned to ensure that the implementation of and compliance with the revised arrangements was monitored by the Audit, Governance and Standards Committee, including the delivery of appropriate training. Mr Green suggested that a report be submitted to the Committee later in the year on the action being taken to fulfil the Democracy Committee's request.

The Chairman said that there was a link between procurement and contract management, and this should be taken into account when the Officers report back; specifically, the need to make sure that procurement terms follow a format that the Contract Manager can monitor.

**RESOLVED:**

1. That the reference be noted and that provision be made in the Committee's work programme to monitor the implementation of and compliance with the revised Financial and Contract Procedure Rules, including the delivery of appropriate training.

2. That the report on this issue should take into account the link between procurement and contract management.

18. ANNUAL GOVERNANCE STATEMENT 2017/18

Mrs Angela Woodhouse, the Head of Policy, Communications and Governance, introduced her report setting out the Annual Governance Statement for 2017/18.

Mrs Woodhouse explained that:

- The Annual Governance Statement was produced to accompany the Statement of Accounts. It looked back at the governance arrangements for 2017/18 and identified areas for action for 2018/19 to ensure that good governance was maintained. Action taken last year included:

Risk Management – A risk appetite had been agreed and changes made to the Committee report template.

Decision Making – A new report template was now in place and training had been provided for report authors and Democratic Services staff.

Information Management – Measures had been put in place to ensure compliance with the Data Protection Act 2018, including training across the Council.

- There were not considered to be any significant governance issues arising from the review. Actions identified for 2018/19 related to audit reviews with weak assurance and the key corporate risks.

Mrs Woodhouse advised the Committee that she wished to correct a typographical error in that the word "Sliver" on page 27 of the agenda should read "Silver".

In response to questions, Mrs Woodhouse advised Members that:

- The Local Code of Corporate Governance had been revised and adopted in 2017 and did not need to be refreshed this year.
- She understood that the Employment Committee had discussed the cost of the Investors in People Assessment, including the staff time involved. She would look into the matter, and circulate details to all Members of the Committee.

**RESOLVED:** That subject to the correction of the typographical error identified by the Head of Policy, Communications and Governance, the Annual Governance Statement for 2017/18 be approved.

19. AUDIT, GOVERNANCE AND STANDARDS COMMITTEE - PARISH COUNCIL REPRESENTATION

Mrs Debbie Snook, Democratic Services Officer, introduced her report, the purpose of which was to regularise the situation regarding Parish Council representation on the Audit, Governance and Standards Committee and to address discrepancies within the Constitution.

Members felt that the relationship between Parish Councils and the Borough Council was very important and that Parish Council representatives made a valuable contribution to the work of the Committee. It was pointed out that Parish Council representatives were appointed by the Council upon the nomination of the Maidstone Area Committee of the Kent Association of Local Councils (KALC), but not all Parish Councils in the Borough were members of KALC. It was suggested that, subject to the proposed changes being agreed by the Council, when seeking nominations for Parish Council representatives, the invitation should also be extended to any Parish Councils in the Borough that are not members of KALC.

**RESOLVED:**

1. **To RECOMMEND to the COUNCIL:** That changes be made to the Constitution to:
  - Clarify that the Hearings Sub-Committee no longer exists and has been replaced by the Hearing Panel.
  - Specify that the Hearing Panel consists of three voting elected Councillors drawn from the Audit, Governance and Standards Committee plus one non-voting Parish Councillor drawn from the Audit, Governance and Standards Committee when a Parish Councillor is the subject of a complaint.
  - Specify that the Audit, Governance and Standards Committee comprises nine Councillors plus two non-voting Parish Councillors appointed by the Council for a three year term of office.
2. That delegated authority be given to the Head of Mid-Kent Legal Partnership to incorporate appropriate changes to the Constitution to effect the required changes and/or to reflect legislative requirements prior to Council approval.
3. That subject to the proposed changes being agreed by the Council, when seeking nominations for Parish Council representatives, the invitation should also be extended to any Parish Councils in the Borough that are not members of KALC.

Note: Councillor Coulling, Parish Council representative, left the meeting when this item was discussed.

20. AUDIT, GOVERNANCE AND STANDARDS COMMITTEE - ANNUAL REPORT 2017/18

Mrs Alison Blake, Audit Manager, presented the Audit, Governance and Standards Committee Annual Report 2017/18. Mrs Blake explained that:

- The Annual Report outlined how the Committee had fulfilled its responsibilities as set out in its terms of reference. The report covered the work undertaken by the Committee during 2017/18, the sources of assurance the Committee had received, the complaints received under the Members' Code of Conduct during 2017/18 and the development briefings which had been delivered during the year.
- The report also set out a proposed programme of updates and development briefings that could be provided during 2018/19.
- The overall conclusion was that the Committee could demonstrate that it had appropriately and effectively fulfilled its duties during 2017/18.

During the discussion it was suggested that it would be useful to receive a briefing session on recharges possibly as part of a wider session on local government finance and a briefing session on the audit process including a demonstration of the new audit management system and the benefits it brings.

**RESOLVED:**

1. That the Audit, Governance and Standards Committee Annual Report for 2017/18 be agreed.
2. **To RECOMMEND to the COUNCIL:** That the Audit, Governance and Standards Committee Annual Report 2017/18, which demonstrates how the Committee discharged its duties during 2017/18, be noted.
3. That the proposed programme of Member development briefings be approved subject to the inclusion of a briefing session on recharges possibly as part of a wider session on local government finance and a briefing session on the audit process including a demonstration of the new audit management system and the benefits it brings.

21. ANNUAL INTERNAL AUDIT REPORT & OPINION 2017/18

Mr Russell Heppleston, Deputy Head of Audit Partnership, introduced the Annual Internal Audit Report and Opinion 2017/18 on behalf of the Head of Audit Partnership. In accordance with the Public Sector Internal Audit Standards, the report included

- The annual opinion of the Head of Audit Partnership on the overall adequacy and effectiveness of the Council's internal control, governance and risk management;

- A summary of the work undertaken by Mid-Kent Audit that supported the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards.

It was noted that the Head of Audit Partnership was satisfied from the audit work completed that the Council could place assurance on the system of control in operation during 2017/18; that the corporate governance framework complied in all significant respects with the best practice guidance issued by CIPFA/SOLACE and that risk management processes were effective. The Head of Audit Partnership had decided independently and without any undue pressure from Officers or Members.

Mr Heppleston drew the Committee's attention in particular to the interim findings of the contract management audit which was underway, with some further testing outstanding; the approach to following up audit recommendations; the work undertaken by Internal Audit in relation to counter fraud and corruption and risk management; how the service complied with Standards and the Code of Ethics; the support given to the Internal Audit Team in continuing development and upholding professional competence to ensure that the Team had the necessary skills to deliver the Audit Plan; and the introduction of new audit management software.

The Chairman thanked the Deputy Head of Audit Partnership for a very comprehensive summary of the activities of the Internal Audit Team during 2017/18 and thanked the Team for its work and achievements in terms of professional development.

In response to questions by Members, the Officers explained that:

- Career progression was designed to recognise achievement of qualifications.
- The audit findings in relation to the accounts receivable system were being taken very seriously and the recommendations were being addressed.
- Following the review of procurement by Internal Audit which provided a weak assurance, the Council's Financial and Contract Procedure Rules had been revised and comprehensive training had been provided for people across the Council involved in procurement. The findings of the review had been taken very seriously and acted upon.
- The Internal Audit review of subsidiary company governance did not provide an assurance rating as it was recognised that the Company was still evolving. A report would be submitted to a future meeting of the Committee on the governance arrangements for the Company.

**RESOLVED:**

1. That the Head of Audit Partnership's opinion that the Council's system of internal control, corporate governance and risk management arrangements have operated effectively during 2017/18 be noted.
2. That the work underlying the opinion and the Head of Audit Partnership's assurance that it was completed with sufficient independence and conformance with Public Sector Internal Audit Standards be noted.

22. ANNUAL RISK MANAGEMENT REPORT

Mrs Alison Blake, Audit Manager, presented the Annual Risk Management Report to the Committee. Mrs Blake explained that:

- The purpose of the Annual Risk Management Report was to provide Members with assurance on the Council's risk management arrangements. The report outlined the Council's risk management process (covering both corporate level risks and operational risks); the risk profile of the Council and how it had changed over the year; and the Council's corporate risks and how they had changed over the year with actions being taken to reduce risks and capture emerging risks that had a corporate impact.
- The role of the Audit, Governance and Standards Committee was to assure itself that the risk management processes were working effectively. The detail of individual risks was reviewed by the Policy and Resources Committee every six months, but if the Audit, Governance and Standards Committee identified risks that they needed assurance on they could request details of how they were being managed.

**RESOLVED:** That the Annual Risk Management Report be noted.

23. ANNUAL ACCOUNTS 2017/18

Miss Ellie Dunnet, the Head of Finance, introduced her report setting out the findings of the External Auditor's work on the 2017/18 financial statements audit and value for money conclusion.

Miss Dunnet advised the Committee that the Statement of Accounts reflected changes that were identified during the course of the audit and also incorporated suggestions made by Members during the briefing session held in June. The Annual Governance Statement attached as Appendix A to the accounts should be the later version agreed by the Committee earlier in the meeting. The Council was required to have its audited Statement of Accounts approved by the Audit, Governance and Standards Committee by 31 July in accordance with the Accounts and Audit Regulations.

Mr Matt Dean of Grant Thornton presented the External Auditor's Audit Findings Report. He informed the Committee that it was proposed to issue an unqualified audit opinion and value for money conclusion. The rest of the report covered the risks considered during the audit work (no significant issues had been identified in relation to any of these areas) and the significant risks identified in relation to the value for money conclusion, including the risks identified around the Council's Medium Term Financial Plan. Overall the External Auditor was satisfied with the Council's position. The Council had a good track record of delivering its plans over recent years which meant that it was well placed to deal with the challenges ahead.

In response to questions, Mr Dean said that the accounts reflected the standard of preparation by the Head of Finance and her team and that the Council needed to focus on the future given the uncertainty surrounding local government funding. Brexit was a consideration, but the implications were as yet unknown.

Mr Mark Green, the Director of Finance and Business Improvement, advised the Committee that uncertainty surrounding issues such as Brexit was addressed in the Medium Term Financial Strategy and the Council's risk management processes.

The Chairman thanked the Finance Team for their ongoing work to improve the presentation of the accounts and make them more understandable.

**RESOLVED:**

1. That the External Auditor's Audit Findings report be noted.
2. That subject to the incorporation of the final version of the Annual Governance Statement agreed earlier in the meeting, the audited statement of accounts be approved.
3. That the Letter of Representation from the Council to the External Auditor be approved.

24. EXTERNAL AUDIT FEE LETTER 2018/19

Mr Matt Dean of Grant Thornton presented the External Audit Fee Letter for 2018/19. Mr Dean explained that the planned fee for external audit work in relation to the 2018/19 financial statements audit and value for money conclusion had been set at £38,866 which represented a 23% decrease from the fee charged in 2017/18. The fee for grant claim certification work had not yet been set.

Mr Dean informed the Committee that 2017/18 would be Mr Darren Wells' final year as Engagement Lead for the audit. Having worked with Maidstone for the last seven years, Mr Wells was now required to rotate off the audit in order to maintain an appropriate degree of independence.



Mr Wells would be replaced by Ms Elizabeth Jackson, an experienced auditor who had worked with Maidstone before.

**RESOLVED:** That the planned fee of £38,866 for the 2018/19 financial statements audit and value for money conclusion be noted.

25. TREASURY MANAGEMENT ANNUAL REVIEW 2017/18

Mr John Owen, Finance Manager, introduced his report setting out details of the activities of the Treasury Management function for the 2017/18 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities, and in the context of the economic environment over the past 12 months.

Mr Owen explained that:

- Key elements of the Council's Treasury Management Strategy for 2017/18 were:

To reduce the maximum principal sums to be invested for a period exceeding 364 days from £8m to £5m. This was consistent with the borrowing strategy to utilise cash balances rather than loan debt to meet liabilities as they became due and to finance the Capital Programme in the short term. No long term investments had been made in the year.

To diversify the investment portfolio within the parameters of the counterparty list as advised by Arlingclose, the Council's Treasury Management advisors. The types of investment included money market funds, deposits with other local authorities and certificates of deposit.

- Investment income for the year totalled £145k with the average rate on investments being 0.44% against the benchmarked rate of 0.51%.
- The Council had borrowed during the year for short term liquidity purposes. Maximum borrowing was £3.65m for 6 days towards the end of March. There was no borrowing requirement at year end.
- The Prudential Indicators showed expenditure on the Capital Programme. The Capital Financing Requirement was at a low level but would increase when more was spent on the Capital Programme in future years.

The Chairman emphasised the need to ensure that investments in capital projects are carefully managed.

**RESOLVED:**

1. That the review of the financial year 2017/18 which has been compiled in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities be noted.

2. That no amendments to the current Treasury Management procedures are necessary as a result of the review of activities in 2017/18.

26. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

Mr Mark Green, the Director of Finance and Business Improvement, introduced his report providing an update on the budget risks facing the Council. Mr Green explained that uncertainty about the local government funding regime was a longstanding risk, but recent developments in the local government sector and in the broader context of public sector expenditure had increased the level of risk. Also, early indicators suggested that broader economic factors might expose the Council to fluctuations in business rates income.

In response to questions, Mr Green explained that in terms of the risks associated with funding the Capital Programme, it was considered that, so long as there was no risk of interest rates rising quickly, the Council should not borrow until it needed to as the cost of borrowing was more than the cash would be earning. In terms of borrowing for short term purposes, the rates were much lower.

**RESOLVED:** That the updated risk assessment of the Budget Strategy be noted and that the risks should continue to be monitored.

27. MR RUSSELL HEPPLESTON

It was noted that Mr Russell Heppleston would be taking up a six month secondment as Head of Audit Partnership at Dartford and Sevenoaks.

The Committee congratulated Mr Heppleston on his appointment, and wished him well.

28. DURATION OF MEETING

6.30 p.m. to 8.10 p.m.