

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 30 JULY 2019

Present: Councillor Harvey (Chairman) and
Councillors Mrs Blackmore, Brindle, Daley, English,
Khadka, Perry, M Rose and Round

Also Present: Ms Tina James – External Auditor, Grant Thornton

6. APOLOGIES FOR ABSENCE

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

7. NOTIFICATION OF SUBSTITUTE MEMBERS

The following Substitute Members were noted:

Councillor Mrs Blackmore for Councillor McLoughlin
Councillor English for Councillor Cox
Councillor Khadka for Councillor Fissenden
Councillor M Rose for Councillor Adkinson

8. URGENT ITEMS

The Chairman said that she 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 19 – External Auditor’s Audit Findings Report

Appendix 3 to agenda item 19 – Letter of Representation

There were also amendments to Appendix 1 (Annual Governance Statement 2018/19) to agenda item 12 and to Appendix 2 (Narrative Report and Audited Statement of Accounts 2018/19) to agenda item 19.

A Member said that there had been, supposedly, a disclosure of confidential information and he would have expected the Audit, Governance and Standards Committee to have been updated as he understood that an investigation was being undertaken and some members of his Group had been interviewed.

The Head of Legal Partnership advised the Committee that the informal investigation was still ongoing and that she hoped to provide an update in

the annual report on Member Code of Conduct matters to be submitted to the Committee in September.

9. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

10. DISCLOSURES BY MEMBERS AND OFFICERS

Councillor Daley said that he was a member of the Kent County Council Superannuation Fund Committee and that if matters relating to the Pension Fund were raised during consideration of the Statement of Accounts 2018/19 (agenda item 19), he would not take part in the discussion.

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 18 MARCH 2019

RESOLVED: That the Minutes of the meeting held on 18 March 2019 be approved as a correct record and signed.

14. MINUTES OF THE MEETING HELD ON 21 MAY 2019

RESOLVED: That the Minutes of the meeting held on 21 May 2019 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 2019/20

The Committee considered its work programme for 2019/20.

In response to a question, the Head of Audit Partnership confirmed that there was a duplicate item in the work programme. He anticipated that the Risk Management Annual report to be submitted to the September meeting of the Committee would cover the risk management process.

17. ANNUAL GOVERNANCE STATEMENT 2018/19

The Committee considered the report of the Head of Policy, Communications and Governance setting out the Annual Governance Statement 2018/19. It was noted that:

- The Council was required to produce an Annual Governance Statement each year looking at the effectiveness of the previous year's governance arrangements and whether any actions were required to improve arrangements in 2019/20. No significant governance issues had been identified arising from the review and the Officers were satisfied that the Council's governance arrangements were working well. This was reflected in the paragraph headed "Significant Governance Issues" on page 2 of the document which had been amended to read "Conclusion on Significant Governance Issues".
- The review had identified areas for improvement in 2019/20, several of which were linked to the Corporate Risk Register, to ensure good standards of governance are maintained. Updates on the actions would be provided for the Committee on a six monthly basis and kept under review by the internal Corporate Governance Group.
- A number of improvement actions had been identified as part of the 2017/18 review and progress had been made in all areas. For example:

The new Strategic Plan had been adopted;
 Audit reviews with weak assurance had now been rated as sound following the implementation of agreed remedial measures;
 Action had been taken in response to the findings of the Stress Survey and to mitigate risks associated with increasing housing pressures, the potential failure of significant capital projects of a housing and regeneration nature and financial restrictions;
 Progress had been made against the action plan to ensure compliance with Data Protection legislation; and
 The Council was now Payment Card Industry Compliant.

In response to questions:

- The Head of Audit Partnership advised the Committee that he had been consulted on the compilation of the Annual Governance Statement and the results and recommendations of Internal Audit reports were fed into it. There were established procedures for dealing with the results and recommendations of Internal Audit reports. There had only been a few issues giving rise to significant areas for improvement which should be recognised within the Statement, and he was satisfied that they were appropriately represented. Also, as set out in the Annual Internal Audit Report and Opinion 2018/19, he was satisfied that the Council's corporate governance arrangements for the year ended 31 March 2019 complied in all material respects with guidance on proper practices.
- The Head of Policy, Communications and Governance advised the Committee that:

The Annual Governance Statement looked back at the governance arrangements for 2018/19. The Monitoring Officer had cause during the year to remind Members about the obligations within the Code of

Conduct relating to the disclosure of exempt and confidential information and an investigation was being carried out into a potential alleged breach of the Code. The disclosure had not been identified as such a significant issue that it needed to be referenced in the Annual Governance Statement action plan for 2019/20, but if the trend continued it could be included as a governance issue next year.

Partner relationships had been identified as a key improvement area as it was necessary to build relationships with partners and stakeholders such as Kent County Council, Mid-Kent Services partner authorities and other local public sector organisations to deliver the ambitions within the Strategic Plan.

The Council was now broadly compliant with the Data Protection legislation and had action plans in place covering the areas where more work was required. Currently, the Policy team was working on email retention; updating the way information is retained; and making sure practices are followed through. The Information Management Group was monitoring progress against the action plans and regular updates could be provided for Members of the Audit, Governance and Standards Committee if required.

RESOLVED: That the Annual Governance Statement for 2018/19, attached as amended Appendix 1 to the report of the Head of Policy, Communications and Governance, be approved.

18. AUDIT, GOVERNANCE & STANDARDS COMMITTEE ANNUAL REPORT 2018/19

The Audit Manager presented the Audit, Governance and Standards Committee Annual Report 2018/19. It was noted that:

- The Annual Report outlined how the Committee had discharged its duties as set out in its terms of reference. The report covered the work undertaken by the Committee during 2018/19, the sources of assurance the Committee had received, the complaints received under the Members' Code of Conduct during 2018/19 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 2019/20.
- The overall conclusion was that the Committee could demonstrate that it had appropriately and effectively discharged its duties during 2018/19.

In response to a question, the Audit Manager confirmed that she would amend the section of the report entitled "Meetings and Attendance" to reflect the fact that during 2018/19, the Committee comprised nine Borough Councillors plus two non-voting Parish Councillors.

RESOLVED:

1. That subject to the amendment of the section entitled "Meetings and Attendance" to reflect the fact that during 2018/19, the Committee comprised nine Borough Councillors plus two non-voting Parish Councillors, the Audit, Governance and Standards Committee Annual Report for 2018/19, attached as Appendix A to the report of the Audit Manager, be agreed.
2. **To RECOMMEND to the COUNCIL:** That the Audit, Governance and Standards Committee Annual Report 2018/19, which demonstrates how the Committee discharged its duties during 2018/19, be noted.
3. That the proposed programme of Member development briefings be approved.

19. ANNUAL INTERNAL AUDIT REPORT & OPINION 2018/19

The Head of Audit Partnership introduced the Annual Internal Audit Report and Opinion 2018/19. 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 2018/19; that the corporate governance framework complied in all significant respects with the best practice guidance issued by CIPFA/SOLACE; and that the Council's risk management processes were effective. The Head of Audit Partnership had reached his conclusions independently and without any undue pressure from Officers or Members.
- Some assurance projects had been removed from the 2018/19 audit plan or rescheduled/delayed, but this had not affected the overall opinion. Executive summaries of the findings of the planned 2018/19 assurance projects completed so far had been provided, but the full reports could be made available upon request. In terms of following up actions, the actions marked as overdue stemmed chiefly from three specific projects reported originally as part of the 2017/18 audit programme: Emergency Planning, Contract Management and Animal

Welfare Control. Updates would be provided as part of the interim reporting later in the year, but the Head of Audit Partnership was satisfied in the context of the overall opinion that there were no undue threats to the Council in relation to the progress on these matters.

- The report detailed other audit service work carried out throughout the year including three counter fraud and corruption investigations, one of which resulted in a former member of staff receiving a Police caution; and the completion of three independent reviews commissioned by Kent's Safeguarding Boards. The report also provided an update on progress towards completing the 2019/20 audit and assurance plan.
- All Internal Audit services were required to seek 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. A suitably qualified assessor would be appointed this autumn with a view to a report being submitted to Members in the spring of 2020.

Members thanked the Head of Audit Partnership for a very comprehensive summary of the activities of the Internal Audit team during 2018/19 and thanked the team for its work and achievements in terms of professional development. They also thanked the Director of Finance and Business Improvement and the Procurement team for the progress made in improving contract management across the Council.

In response to questions:

The Head of Audit Partnership advised the Committee that:

- The way in which audit reports with weak assurance ratings were dealt with differed at each of the four partner authorities. The update on the Internal Audit Charter, scheduled to be reported to the Committee in January 2020, could be brought forward to September to enable consideration to be given at an early opportunity to a proposed mechanism for extra examination of audit reports with weak assurance ratings.
- One of the advantages of working in a four way partnership was that issues of resilience were easier to manage. There had been an extended period of sickness absence coupled with additional investigative and reporting work but there had been limited impact in the context of the Partnership in that some low risk more routine work was rescheduled from one year to another. He was satisfied that this was an appropriate response to risks as they changed and that he could still give a comprehensive opinion.

The Director of Finance and Business Improvement advised the Committee that the procedures for authorising and approving virements were set out in the Financial Procedure Rules contained within the Council's Constitution.

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 2018/19 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.
3. That progress so far towards completing the 2019/20 audit and assurance plan be noted.
4. That consideration be given to a proposed mechanism for extra examination of audit reports with weak assurance ratings as part of the forthcoming review of the Internal Audit Charter.

20. 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:

- The two principal budget risks continued to be uncertainty about future local government funding arrangements and the potential financial consequences of a disorderly Brexit.
- In terms of the local government funding regime, it was anticipated that the current arrangements would be rolled forward into 2020/21 as other priorities were likely to prevent the government from implementing a new funding regime as originally planned. However, there were a number of variables that were still uncertain even within the existing arrangements, including the Council Tax referendum limit, the Business Rates baseline (which determines the level of Business Rates that the Council retains locally), future specific grants and the potential for the Council to suffer negative Revenue Support Grant.
- The financial impact of a disorderly Brexit for the Council would be two-fold. In the short term disruption to transport would have major implications for service delivery with staff not being able to travel to work and congestion hampering services like refuse collection. Costs had already been incurred in contingency planning and further costs would be incurred in the run up to the likely revised Brexit date of 31 October 2019. Although the government had notified the Council of a grant of £35,000 to cover Brexit costs in January 2019, this was much less than estimated likely costs.
- In addition, there might be adverse longer term effects on the economy arising from a no-deal Brexit, with a knock-on impact for

local authorities. The prospect of a no-deal Brexit was depressing the exchange rate resulting in increases in key input costs such as fuel. Revenues from fees and charges would be adversely affected by a downturn, the collection of business rates and Council Tax could be affected and there could be increasing pressure on homelessness budgets.

In response to questions, the Director of Finance and Business Improvement explained that the Council was working with other Councils in Kent as part of the Kent Resilience Forum to press central government for additional resources to mitigate the impact of a disorderly Brexit. Contingency plans were being put in place based upon a range of scenarios (adverse, neutral and favourable) to ensure that the Council is prepared for the consequences of a disorderly Brexit.

Arising from the discussion, it was suggested and agreed that the Director of Finance and Business Improvement be requested to join with all District Councils in Kent, Kent County Council and other Kent based public sector bodies in lobbying for additional resources from central government to mitigate the effects of a disorderly Brexit.

RESOLVED:

1. 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.
2. That the Director of Finance and Business Improvement be requested to join with all District Councils in Kent, Kent County Council and other Kent based public sector bodies in lobbying for additional resources from central government to mitigate the effects of a disorderly Brexit.

21. TREASURY MANAGEMENT ANNUAL REVIEW 2018/19

The Director of Finance and Business Improvement introduced the report of the Finance Manager setting out details of the activities of the Treasury Management function for the 2018/19 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.

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

- As at 31 March 2019, the Council had investments of approximately £15m. The end of March was generally the lowest point in the year for the Council's cash investments because it was only after the end of the month that Council Tax and Business Rates income started coming in again.
- As at 30 July 2019, the value of the Council's investments had increased to £26m. The context for this was that the Council had a

Capital Programme and would have quite significant cash requirements over the next few years so whilst the Council was holding cash at the moment it would be moving into a borrowing position over the next year or so. The cash held was generally held on a short term basis to keep a degree of liquidity so that it was available when needed for capital investment. Other than for short term purposes, the Council would not borrow before it had to because the cost of borrowing although relatively cheap at just over 2% was still more than it earned on cash balances (approximately 1%).

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

- The sum of £377 currently invested with Svenska Handelsbanken was to keep the account open.
- Service loans supported the service objectives of the Council. The Council had provided two service loans; one to Kent Savers, a credit union, to provide financing facilities for people who might not otherwise be able to access finance and the other to support the establishment of the BID. The loan to the Cobtree Manor Estate Charity was a purely commercial transaction, hence the commercial rate of interest on the loan.

RESOLVED:

1. That the review of the financial year 2018/19 undertaken in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities and the prudential and treasury indicators be noted.
2. That no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2018/19.

22. UPDATED CAPITAL STRATEGY

The Director of Finance and Business presented the report of the Interim Head of Finance proposing the adoption of an updated Capital Strategy. It was noted that:

- CIPFA's Prudential Code which governs the Council's capital investment and borrowing introduced a new requirement in 2019/20 for a Capital Strategy. The intention was to ensure that Councils provide a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services together with a description of how associated risk is managed and the implications for future financial sustainability.
- Accordingly, the Capital Strategy was an overarching document linking the Strategic Plan, the Medium Term Financial Strategy, the Treasury Management Strategy and the Asset Management Plan. The Capital

Strategy was adopted by the Council in February 2019 but since then best practice had evolved and the Council had started working with new treasury advisers, Link Asset Services. It was therefore appropriate to take the opportunity to review and update the Strategy.

- Specific details of the five year Capital Programme were set out in table 1 to the Capital Strategy. The two main strands to the Strategy were housing development and regeneration where it was proposed to invest £35m and the acquisition of commercial assets where it was proposed to invest another £35m. The acquisition of commercial assets not only generated a financial return, but also supported the local economy.
- The Strategy also included details of the financing of the Capital Programme and the mechanisms to ensure that capital investment and the borrowing to support it is not excessive. It could be seen that at the end of the five year period the financing costs only accounted for 7% of the net revenue stream, which represented a modest level of borrowing.
- As part of the budget process for next year, Members would be asked to consider whether they wished to pursue a more ambitious Capital Programme to deliver the Council's objectives.

In response to a question about whether there was a training need for Members on the Capital Strategy, the Director of Finance and Business Improvement confirmed that a briefing session could be arranged to take place before the meeting of the Committee in January 2020 when the updated Capital Strategy would be discussed.

RESOLVED to RECOMMEND to the COUNCIL: That the updated Capital Strategy, attached as Appendix A to the report of the Director of Finance and Business Improvement, be agreed.

23. EXTERNAL AUDIT FEE LETTER 2019/20

The Committee considered the report of the Interim Head of Finance concerning the External Audit Fee Letter for 2019/10. It was noted that the planned fee for external audit work in relation to the 2019/20 financial statements audit and value for money conclusion was £38,866 which was the same as in 2018/19. The fee for grant claim certification work had not yet been set. Provision for the audit fee had been incorporated into the Council's financial planning.

In response to a question, Ms James of Grant Thornton, the External Auditor, explained the outline audit timetable including the phases of work, the team members and the approximate number of weeks involved.

RESOLVED: That the planned fee of £38,866 for the 2019/20 financial statements audit and value for money conclusion be noted.

24. FINAL STATEMENT OF ACCOUNTS 2018/19

The Interim Head of Finance introduced his report setting out the findings of the External Auditor's work on the 2018/19 financial statements audit and value for money conclusion. It was noted that the audit process was nearing its conclusion and the amended Statement of Accounts attached at Appendix 2 incorporated audit adjustments and suggestions made by Members during the briefing session in June.

Ms James of Grant Thornton presented the External Auditor's Audit Findings Report. She explained that:

- The External Auditor had received the draft financial statements by the end of May 2019 and a revised version in June as adjustments had been made to reflect a change in the treatment of income from Retained Business Rates and a late Rent Allowance Payment. Work was ongoing and it was hoped that a conclusion would be reached the next day, but it was anticipated that an unmodified or unqualified audit opinion would be issued.
- The rest of the report covered, inter alia, the risks considered during the audit work; the potential impact of the McCloud judgement on the pension fund net liability; and audit adjustments, including a technical adjustment relating to depreciation and the treatment of a revalued asset.

In response to questions:

Ms James said that discussions were ongoing regarding the potential impact of the McCloud ruling on the financial statements of local government bodies. At Maidstone, management's view was that the impact of the ruling was not material for the Council and would be considered for future years' actuarial valuations. The External Auditor was of the view that there was sufficient evidence to indicate that a liability was probable but was satisfied that there was not a risk of material error as a result of this issue.

The Director of Finance and Business Improvement said that:

He was aware of the potential for hospitals to claim back rates, but at the moment, it was considered to be a low enough risk not to have to make provision for it in the accounts.

In terms of the change in the Council's current ratio (Current Assets: Current Liabilities) between 2017/18 and 2018/19, there was an unusual item in this year's accounts which had pushed up the ratio. This was the figure for short term creditors which had increased from £14m to £23m. This was because the Council was the administering authority for the Kent and Medway Business Rates Pilot 2018/19 and as at 31 March, the Council was holding cash that had to be distributed to other authorities. This was one of the factors giving rise to a higher liability figure.

During the discussion, it was pointed out that the External Auditor's Audit Findings Report had not been updated in all relevant sections to reflect the revised date for Brexit.

RESOLVED:

1. That the External Auditor's Audit Findings Report, attached at Appendix 1 to the report of the Director of Finance and Business Improvement, be noted.
2. That subject to the issue of an unmodified audit opinion by the External Auditor, the amended audited Statement of Accounts, attached at Appendix 2 to the report of the Director of Finance and Business Improvement, be approved.
3. That the Letter of Representation from the Council to the External Auditor, attached at Appendix 3 to the report of the Director of Finance and Business Improvement, be approved.

25. DURATION OF MEETING

6.30 p.m. to 8.05 p.m.