

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 14 MARCH 2022

Present: Councillor Bartlett (Vice-Chairman in the Chair) and Councillors Brindle, Coulling (Parish Representative), Garten, Purle, J Sams, Titchener (Parish Representative) and Trzebinski

Also Present: Mr Paul Dossett – Grant Thornton (External Auditor)

77. **APOLOGIES FOR ABSENCE**

It was noted that apologies for absence had been received from Councillors Cuming and Perry (Chairman).

78. **NOTIFICATION OF SUBSTITUTE MEMBERS**

The following Substitute Members were noted:

Councillor Garten for Councillor Perry
Councillor Purle for Councillor Cuming

79. **URGENT ITEMS**

There were no urgent items.

80. **NOTIFICATION OF VISITING MEMBERS**

There were no Visiting Members.

81. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

82. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

83. **EXEMPT ITEMS**

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

84. MINUTES OF THE MEETING HELD ON 17 JANUARY 2022

RESOLVED: That the Minutes of the meeting held on 17 January 2022 be approved as a correct record and signed.

85. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

86. QUESTIONS FROM MEMBERS TO THE CHAIRMAN

There were no questions from Members to the Chairman.

87. 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 September 2021 to 28 February 2022. It was noted that:

- Since the last report to the Committee in September 2021, four existing Borough Councillor complaints had been concluded. In each case, no breach was established.
- Following feedback at the September 2021 meeting, the report included details of the reasons why the complaints had failed the preliminary tests against which they were assessed.
- Since the September 2021 meeting, five new complaints had been received, all of which related to Parish Councillors. The complaints were being considered by the Monitoring Officer in consultation with the Independent Person and the outcome in each case would be reported to the September 2022 meeting of the Committee.

During the discussion, Members indicated that, in addition to the explanations provided in relation to each complaint, it would be useful to have a table with a running total of complaints covering a period of twelve months to enable trends to be identified. It was also suggested that it would be useful to receive, at an early stage, a short summary of each complaint received against Parish Councillors.

In response to questions about when Members might be able to see the latest draft of the revised Kent Model Code of Conduct to enable them to comment in a constructive way, the Team Leader, Contentious and Corporate Governance, said that he was a member of the Kent Secretaries Group which was acting as a task and finish panel with respect to the new Kent Model Code. The Model Code had not been released yet because changing the Code entailed changing the guidance and potentially the complaints handling process. He would be able to provide a further update after the next meeting of the Kent Secretaries on 28 March 2022 as to when the document would be available.

In response to further comments, the Chairman indicated that it would be helpful to see the draft revised Kent Model Code at the next meeting of the Committee or to receive an update.

The Team Leader, Contentious and Corporate Governance, undertook to attend the next meeting of the Committee in person to provide an update on the new Kent Model Code.

At the conclusion of the discussion on this item, it was suggested that the opportunity be taken to review the section of the Constitution relating to the arrangements for dealing with complaints of alleged breaches of the Members' Code of Conduct with a view to streamlining it and making it more accessible in future.

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

Note: Following the introduction by the Senior Legal Adviser, Corporate Governance, Councillor Garten said that he was one of the Members referred to in the report. He then left the meeting whilst Members discussed the report.

88. STATEMENT OF ACCOUNTS 2020/21

The Director of Finance 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 accordance with the Accounts and Audit Regulations, the Council was required to have its audited Statement of Accounts for the 2020/21 financial year approved by the Committee by 30 September 2021.
- The draft financial statements were prepared by the Finance team and presented to the Committee in July 2021, with audit fieldwork commencing in late August. An updated version of the statements was then presented to the Committee on 28 September 2021. At that time, Grant Thornton advised that insufficient work had been completed to issue an audit opinion by the statutory deadline of 30 September 2021, but they anticipated that outstanding work would be completed during October 2021.
- The updated Statement of Accounts and Grant Thornton's Audit Findings Report were presented to the Committee at its meeting on 15 November 2021. The Audit Findings Report stated that the audit was substantially complete, and Grant Thornton anticipated issuing an unmodified audit report. Some further adjustments relating to the capital accounting entries were required, and the Committee approved the accounts subject to the satisfactory resolution of these issues by

the Director of Finance and Business Improvement in consultation with the Chairman of the Committee.

- An update from Grant Thornton was provided at the meeting of the Committee held on 17 January 2022. This stated that subject to the completion of outstanding work, Grant Thornton anticipated giving their audit opinion on the 2020/21 financial statements by 31 January 2022. However, Grant Thornton had still not issued an opinion.
- From the Council's point of view, the Finance team had responded to Grant Thornton's queries promptly whenever asked and, it was understood, did not have any outstanding queries with Grant Thornton.

Mr Paul Dossett of Grant Thornton attended the meeting to explain the reasons why an audit opinion had still not been issued. Mr Dossett advised the Committee that:

- All of the audit firms had experienced significant challenges in delivering audits. As at the end of January 2022, Grant Thornton had signed off 60% of its audits for 2020/21 and the rest of the firms had achieved 36% between them.
- Whilst there had been some technical, capital accounting and valuation issues, the main reasons for the delay in issuing the audit opinion related to increased regulatory challenges faced by audit firms driven by failures within the commercial sector and, in the case of Maidstone, capacity challenges within Grant Thornton with the Audit Manager and supporting team. The supporting team had moved to other parts of Grant Thornton or left the firm, and the Audit Manager was trying to manage four audits, all delayed, and had faced other challenges that had delayed him in completing his work. The delay did rest with Grant Thornton and the firm was trying to conclude the matter as soon as possible, although he was unable to say when that would be.

In response to questions:

Mr Dossett explained that:

- There were separate teams within Grant Thornton dealing with commercial and local authority audits. Whilst there were some delays in completing commercial audits, there was a very specific delay with local authority audits. Local authority accounts were very complicated relative to the degree of risk.
- The market was very constrained at the moment. Grant Thornton was having to recruit qualified staff from overseas to do this work and it was difficult to retain staff post qualification because there were many opportunities within and outside the firm that looked more attractive than a career in local authority audit. It was a problem that would take time to resolve.

- Some progress had been made on the audit since the last meeting and he estimated that it would take 5-10 days to complete the work. He would be prepared to provide an update for Members on progress between now and the end of the month.
- Following the abolition of the Audit Commission, a clearly defined systems leader was needed. The idea of the Government was to vest that leadership in the Financial Reporting Council which would be replaced by a new regulator, the Audit Reporting and Governance Authority, next year. A Director of Local Audit had been appointed to provide that systems leadership. He (Mr Dossett) was hopeful that the new regulator would provide that systems leadership and enable auditors to focus on what mattered.

The Director of Finance and Business Improvement explained that:

- The Kent Finance Officers (S151 Officers at the Kent Authorities) were very concerned about the situation regarding the auditing of local authority accounts and had written to the PSAA. The Council could not penalise Grant Thornton financially for the delay in signing off the accounts. The issue was that the longer the delay, the more local authority audit was devalued. It was a reputational issue as a set of accounts that was over a year late had much less credibility. The issues had been aired in the local government press.

During the discussion, the Committee was concerned to hear that the team which had started the audit of the Council's accounts was no longer working on local government audits. Grant Thornton's HR policies allowed employees to move onto other assignments having given the appropriate notice.

It was suggested and agreed that Grant Thornton be requested to undertake a review of its HR policies to ensure that they engender loyalty to and support the delivery of audit projects given that the Council's audit opinion had been delayed by staff moving on within the firm.

RESOLVED:

1. That the update on progress with the audit of the 2020/21 financial statements be noted.
2. That Grant Thornton be requested to undertake a review of its HR policies to ensure that they engender loyalty to and support the delivery of audit projects given that the Council's audit opinion has been delayed by staff moving on within the firm.

89. RISK MANAGEMENT ANNUAL REPORT - 2021-22

The Interim Deputy Head of Audit introduced her report setting out details of how the risk management processes had been working across the Council together with the work plan for the coming year. It was noted that:

- The purpose of the report was to provide assurance to Members that effective processes were in place to appropriately manage and monitor risk and to demonstrate how the risk processes worked in practice across the Council.
- The Council's corporate risks were those risks which could impede the achievement of strategic aims and objectives. Processes were in place to ensure that new risks are captured and escalated. Six new risks had been added to the corporate risk register in January 2022.
- Operational risk registers were in place for each service (including shared services) and were reviewed and updated routinely depending on severity. The overall number of operational risks had increased from 150 in April 2021 to 153 in February 2022. The highest risk related to infrastructure improvements, and it was routinely monitored by the Corporate Leadership Team (CLT).
- All operational risks would be reviewed as part of the implementation of the JCAD risk management software and there would be a complete refresh of the operational risk registers.

In response to questions:

The Interim Deputy Head of Audit advised the Committee that:

- Some of the implications of the current situation in Ukraine such as rising fuel and construction costs were starting to come through in specific risks that were increasing. Routine risk updates to CLT included consideration of external threats on the horizon. As part of the horizon scanning discussion at the next CLT update, she would ask whether there were any other risks relating to global unrest that needed to be captured.
- She would discuss with the owner of the infrastructure risk the extent to which KCC's proposed changes to rural bus services should be captured as part of that operational risk.
- In terms of the removal of Brexit/EU Transition from the corporate risk register, when the register was reviewed last summer, the view was taken that the implications now featured as part of other risks. It was not removed completely; the different elements affecting the Council were incorporated in the other risks identified.
- The existing risk management processes were admin intensive, restricting the time available for further work to embed risk across the Council. Current processes required the prompting of risk leads to ensure risk information remained up to date and services/senior management did not have 'live' access to their risk information. The JCAD software was more versatile. At present, spreadsheets were used, and it was very difficult to extract information from them. The Officers would be able to run reports, tailor reports and get more information out of the software than out of spreadsheets. The system

also had the advantage that it helped to ensure consistency in the risk registers in terms of how risks are framed, making sure that all controls that apply are captured and any actions are being taken. There were automatic prompts to make sure risks are routinely updated and risk owners, senior Officers and CLT would be able to access risk information themselves.

- Risks would be prioritised in JCAD through the risk scoring process.
- JCAD would have the same risk matrix for operational risks and scoring process. It would allow risks to be broken down by service and lower risks to be tracked and managed. However, the focus would still be on the management of the red/black risks.
- JCAD had a much smarter way of structuring risks. The Internal Audit team would continue to facilitate the risk management process to ensure its robustness. Risks would continue to be reported to Heads of Service, Directors and CLT. Removing the administrative burden of the spreadsheets would allow more time for the Internal Audit team to facilitate the understanding of risk and embed that culture within the Council to an even greater degree.

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

- The system for monitoring risks worked well. It was difficult to convey in the report how the processes worked. However, he could confirm that CLT considered the way risks were reported to be helpful, and it would be more so with the implementation of the new software.
- He wished to reassure Members that CLT took the discussion of risk on a regular basis very seriously. The discussions informed CLT's thinking on actions to be taken; for example, in relation to the Capital Programme which had significant risks. This type of tool was very useful in providing a framework for addressing those.

RESOLVED: That the Risk Management Annual Report, attached as Appendix 1 to the report of the Interim Deputy Head of Audit, be noted.

90. INTERNAL AUDIT AND ASSURANCE REPORT 2022/23

The Interim Head of Audit Partnership introduced his report setting out the Internal Audit and Assurance Plan for 2022/23 and summarising the risk assessment and consultation process undertaken by Internal Audit to compile the programme of work that would lead up to the 2022/23 Head of Internal Audit Opinion.

The Interim Head of Audit Partnership advised the Committee that:

- The Internal Audit and Assurance Plan for 2022/23 was a living document which needed to be flexible and responsive to emerging and changing risks throughout the year. For example, the knock-on

impact of the situation in Ukraine on Council services could be quite significant and quite quick in coming to fruition.

- The programme of work was wide-ranging and included two projects suggested by Grant Thornton (Capital Projects Funding and the Asset Register). Some areas had not been looked at for some years, but most of the projects had been included through discussions with senior management.

The Interim Head of Audit Partnership took the opportunity to introduce Mr Andy Billingham, the Interim Audit Manager, who would be working with him on the delivery of the Plan.

In response to questions, the Interim Head of Audit Partnership explained that:

- The remit of Internal Audit was to look at everything, not just the financial aspects of the Council. This was why Economic Development and Workforce Planning had been included in the Plan.
- In terms of whether all of the high priority and medium priority projects included in the Plan required Internal Audit attention, it was a balancing act with finite resources. Economic Development and Workforce Planning provided a good litmus test of other things going on, so he was minded at this stage to say that they should stay in the Plan.
- The Plan would be kept under review to ensure that it remained relevant throughout the year.
- Capital Projects Funding was provisionally planned to be one of the earlier audits and he would take into account the suggestion that the list of projects within the Capital Programme be prioritised with worst-case scenarios and a list of assumptions.

RESOLVED:

1. That the Internal Audit and Assurance Plan for 2022/23, attached as Appendix 1 to the report, be approved and that the Head of Audit Partnership be given delegated powers to keep the Plan current for in-year emerging risks.
2. That the Head of Audit Partnership's view that Internal Audit currently has sufficient resources to deliver the Plan and a robust Head of Audit Opinion be noted.
3. That the Head of Audit Partnership's assurance that the Plan is compiled independently and without inappropriate influence from management be noted.

91. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

The Committee considered the report of the Director of Finance and Business Improvement providing an update on the budget risks facing the Council. It was noted that:

- As the 2021/22 year end approached, the risk of failing to deliver against the revenue budget for the year was reducing. A balanced budget had been agreed for 2022/23, based on a Council Tax increase of 2%. A contingency of £1.3m in total had been built into the budget to allow for higher levels of inflation than anticipated in the original Medium-Term Financial Strategy assumptions. It was likely that there would be changes in local government funding in 2023/24, so there remained uncertainty about the position looking further forward.
- In terms of delivering the capital budget, there were two main risks associated with the capital programme: (a) the availability of funding and (b) the impact of inflation and supply blockages.
- Currently, funding for the Capital Programme was readily available: in the short-term through the market in borrowing and lending between local authorities and over the longer term through the Public Works Loan Board (PWLB). There was no indication that the Government would withdraw this facility for local authorities so long as the lending was not for purely commercial investment purposes. However, it was appropriate to mitigate the risk of dependency on the PWLB, and in line with the Treasury Management Strategy, the Council was considering alternative sources of financing which would allow it to lock in current interest rates for a portion of its debt.
- In terms of the impact of inflation, over time, the impact of higher input costs should be reflected in higher returns from capital investment and increases in the value of capital assets. However, the Council was likely to see severe budget pressures in the short-term at the level of individual capital projects requiring re-prioritisation of schemes.
- As an example of the Council's vulnerability to external factors, the Council's main source of revenue was Council Tax, which was subject to a referendum limit of 2%. Council Tax increases in future years might continue to be capped at less than the rate of inflation which could result in additional savings being required due to a reduced budget.
- There was a range of risks associated with the pension liability, including pension fund investment performance, inflation in salaries and pensions, changes in longevity and the capacity of the organisation to support pension fund contributions. A collective item had been included in the Risk Register to address these risks whilst recognising the mitigations in the scoring of the risk.

In response to a question, the Director of Finance and Business Improvement confirmed that risk was factored into capital investment appraisals, and that the Officers would be looking at a rate of return to cover the risk.

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.

92. DURATION OF MEETING

6.30 p.m. to 7.55 p.m.