

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 26 JUNE 2017

Present: Councillor McLoughlin (Chairman) and Councillors Adkinson, M Burton, Butler, Coulling (Parish Council Representative), Daley, English, Harvey and Perry

Also Present: Councillor Prendergast
Mr Darren Wells - Grant Thornton (External Auditor)

6. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Garland.

7. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor M Burton was substituting for Councillor Garland.

8. NOTIFICATION OF VISITING MEMBERS

Councillor Prendergast indicated her wish to speak on the report of the Head of Policy, Communications and Governance relating to the Annual Statement of Corporate Governance.

9. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

10. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

11. EXEMPT ITEMS

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

12. MINUTES OF THE MEETING HELD ON 20 MARCH 2017

RESOLVED: That the Minutes of the meeting held on 20 March 2017 be approved as a correct record and signed.

In response to a question, the Director of Finance and Business Improvement confirmed that an update would be provided to the

September meeting of the Committee on the minimum standards to be adhered to by contract managers as a regulatory regime.

13. MINUTES OF THE MEETING HELD ON 23 MAY 2017

RESOLVED: That the Minutes of the meeting held on 23 May 2017 be approved as a correct record and signed.

14. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

15. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

The Committee considered the report of the Interim Head of Legal Partnership on complaints received under the Members' Code of Conduct during the period 1 January 2017 to 31 May 2017. It was noted that:

- Since the last report to the Committee on 16 January 2017, there had been one new complaint which related to three separate subject Members, all of whom were Parish Councillors. As at 12 June 2017, the complaint was at the initial assessment stage.
- At the time of the last report to the Committee, one complaint was awaiting initial assessment. The complaint was not progressed as it failed the local assessment criteria.

RESOLVED: That the report be noted.

16. ANNUAL STATEMENT OF CORPORATE GOVERNANCE

The Head of Policy, Communications and Governance presented the Annual Governance Statement for 2016/17 and a new Local Code of Corporate Governance for review and approval by the Committee prior to submission to the Policy and Resources Committee for agreement and then sign-off by the Leader of the Council and the Chief Executive. It was noted that:

- The purpose of the Annual Governance Statement was to provide assurance on the Council's governance arrangements. The Statement included a review of the effectiveness of the arrangements in place for 2016/17 and identified areas for action in 2017/18.
- Action taken to address governance issues in 2016/17 included the introduction of a mandatory training module for data protection, new policies and guidance for all staff on information management, the introduction of a new Member Sounding Board to look at communication issues and how Members can be engaged and informed, and resolution of webcasting issues.

- Overall the governance arrangements were sound, but there were areas where improvements could be made, including contract management.
- The purpose of the Local Code of Corporate Governance was to set out the core principles of corporate governance and the arrangements in place to fulfil these responsibilities. A new Local Code of Corporate Governance had been developed to reflect the "Delivering Good Governance Framework" introduced by CIPFA/SOLACE in 2016. The format of the Annual Governance Statement had also been updated.

In response to questions and comments, it was explained that:

- The effectiveness and costs/benefits of Investors in People accreditation was being looked at by the Employment Committee.
- It had been found from audit work that there were weak controls in place for the management of cash at the Mote Park Café, but following implementation of audit recommendations, the controls in place had been re-assessed as "sound".
- Concerns relating to contract management would continue to be addressed in 2017/18.
- The Annual Governance Statement would be amended to provide an explanation as to who the S151 and Monitoring Officers are and their roles and the Local Code of Corporate Governance would be amended to include references to the Parish Charter and the Statement of Community Involvement.
- The Staff Handbook and the Councillor and Officer Codes of Conduct would be circulated to Members.

During the discussion, reference was made to correspondence received by Members from Parish Councils/Parish Councillors, which was considered to contain inappropriate language. It was suggested that consideration be given to offering training to Parish Councils on equalities and Councillor Code of Conduct issues, possibly in conjunction with the Kent Association of Local Councils (KALC). The Head of Policy, Communications and Governance undertook to look into the concerns raised, establish the issues, determine whether they might be addressed by the provision of training, possibly in conjunction with KALC, and keep Members informed.

RESOLVED: That subject to the amendments made in the discussion, as outlined above, the Annual Governance Statement for 2016/17 and the Local Code of Corporate Governance 2017 be approved for submission to the Policy and Resources Committee for agreement and then sign-off by the Leader of the Council and the Chief Executive.

17. ANNUAL INTERNAL AUDIT REPORT & OPINION

The Head of Audit Partnership presented the Internal Audit Annual Report and Opinion 2016/17. Under 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 during 2016/17 that the Council could place assurance on its internal control. The audit work provided assurance that the Council's corporate governance complied in all significant respects with the guidance issued by CIPFA/SOLACE and that risk management was effective. The Head of Audit Partnership had decided independently and without any undue pressure from Officers or Members.

During his presentation, the Head of Audit Partnership advised the Committee that:

- In his previous report presented to the Committee in November 2016, he had raised some concerns on the strength and resilience of some internal controls. The common thread in these controls was the "second line of defence" – controls designed to identify and correct any failures in the Council's direct management before such failures could expose the Council to risk or harm. He had shared these concerns with senior management who had acted in response.
- As the year continued Internal Audit had found some examples of these controls working effectively and some examples of weakness. Whilst, overall, the controls offered 'sound' assurance, he had continued to raise these matters with senior management separately (besides recommendations arising from individual reviews). He had noted that senior management recognised the need to improve, as recorded in the Annual Governance Statement.
- The Audit Service had delivered above the planned number of audit days.
- The audit project review findings 2016/17 included four weak assurance reports covering Health and Safety, Park and Ride, Performance Management and the Hazlitt Theatre. The Officers had accepted and were acting to address recommendations arising from reviews. This included action on reviews previously assessed as 'weak'. Sometimes, as in the case of Business Continuity, progress had allowed the Audit Service to reassess the assurance rating to 'sound'. The report also

referenced the few audit projects that had incurred delays to actions needed to address agreed recommendations.

- The report also provided an update on counter fraud, including whistleblowing, risk management and the Mid-Kent Audit Service.

The Head of Audit Partnership confirmed conformance with Public Sector Internal Audit Standards and highlighted continued improvement in performance results. He added that the Audit Service had achieved this continuing improvement in performance and productivity whilst keeping high levels of satisfaction.

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

- When considering an NFI match, the question of whether the matter was a fraud or mistake turned on the evidence. To continue a prosecution as fraud, an investigation must pass Evidential and Public Interest Tests. The Evidential Test considered whether the weight of evidence suggested a conviction was likely. This included (for a fraud offence) whether there was evidence to prove dishonesty to a criminal standard; a high bar to clear. On satisfying the Evidential Test, the Council would then need to consider whether a prosecution was in the Public Interest. This test included, among other considerations, weighing up the cost of prosecution against likely penalties and the deterrence effect. Without a conviction, the report described positive matches as 'errors'.
- With regard to following up audit recommendations, none remained outstanding from 2015/16. The report also included details on recommendation ratings. Unless there were exceptional circumstances, the Audit Service would not agree to implementation dates more than a year ahead.

The Committee thanked the Head of Audit Partnership for a clear and well-presented report.

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 2016/17 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.

Note: Councillor Daley left the meeting after consideration of this item.

18. AUDIT, GOVERNANCE AND STANDARDS COMMITTEE - ANNUAL REPORT 2016/17

The Committee considered the report of the Head of Audit Partnership setting out the Audit, Governance and Standards Committee Annual Report 2016/17. It was noted that:

- The report represented a retrospective review of the activity of the Committee and reflected its terms of reference. It provided assurance that important internal control, governance and risk management issues were being monitored and addressed by the Committee and provided additional assurance to support the Annual Governance Statement.
- The report also included a refreshed programme of development briefings, to be delivered prior to each meeting of the Committee, designed to complement and provide insight into the types of issues that the Committee would be considering over the course of the year.

The Committee asked the Officers to consider whether the proposed briefing on understanding local authority accounts could be brought forward.

RESOLVED:

1. That the Audit, Governance and Standards Committee Annual Report 2016/17 be approved.
2. **To RECOMMEND to the COUNCIL:** That the Audit, Governance and Standards Committee Annual Report 2016/17, which demonstrates how the Committee discharged its duties during 2016/17, provides assurance that important internal control, governance and risk management issues are being monitored and addressed by the Committee and provides additional assurance to support the Annual Governance Statement, be noted.
3. That the proposed programme of Member development briefings be approved subject to the Officers considering whether the proposed briefing on understanding local authority accounts could be brought forward.

19. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

The Committee considered the report of the Director of Finance and Business Improvement updating the risk assessment of the Budget Strategy.

It was noted that:

- Since the last meeting of the Committee, the General Election and its outcome had resulted in greater uncertainty at a national level. Locally, the final outturn for the Council's financial year 2016/17 was

now known and an assessment of the risks of failing to deliver against the 2017/18 budget had been carried out. The risks included in the Budget Risk Register had been reviewed in light of these developments, and there were two risks which had moved from the "yellow zone" to the "red zone" as follows:

B – Fees and Charges Fail to Deliver Sufficient Income

The previous Government had indicated that it would allow local authorities to increase planning fees by 20%, which would have helped to offset financial pressures. Unfortunately, the legislation which would have allowed the Council to implement these planning fee increases was not enacted before the General Election. Whilst the Government still seemed to be committed to this initiative it was unlikely that it would occur before the autumn.

H – Adverse Impact from Changes in Local Government Funding

2017/18 was the second year of the four year funding settlement for local government announced in 2016. It was intended that the four year settlement would provide certainty for the remaining period of the Government's five year term. From 2020 there would be a new local government funding regime incorporating 100% business rates retention. The early General Election had created uncertainty in the short term. The new Government might not consider it bound to adhere to the pre-announced settlement figures for years three and four of the Funding Settlement. Further, the introduction of 100% business rates retention might be affected as it depended on enabling legislation, the Local Government Finance Bill, which did not complete its passage through Parliament in the final session before the General Election.

- Other risks had reduced slightly; for example, the revenue outturn for 2016/17 was better than expected, with an underspend of £89,000 against the budget, and the initial assessment of the potential for delivering the savings due in 2017/18 was positive.

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

- In terms of the risk that the inflation rate predictions underlying the Medium Term Financial Strategy are inaccurate, whilst the Consumer Price Index increase was 2.9% for the year to May 2017 compared to a budget projection of 1.6%, the overall impact for the risk profile was no change.
- It was possible that changes in the Government's priorities could have adverse implications for Local Government funding arrangements.
- Whilst the projected benefit from the Kent Business Rates Pool was set to increase from £5.1m to £7.5m in 2017/18, this was a county-wide shared benefit.

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.

20. DRAFT STATEMENT OF ACCOUNTS 2016/17

The Committee considered the draft un-audited Statement of Accounts summarising income and expenditure for the financial year to 31 March 2017 together with details of the Council's assets, liabilities and reserves at that date. It was noted that:

- The Council was required to submit a draft copy of the Statement of Accounts to the External Auditors by 30 June in line with the amended Accounts and Audit Regulations 2011. The final audited Statement of Accounts would be submitted to the Committee for approval in September 2017.
- Long term liabilities had increased by £16.9m, predominantly resulting from the increase in the pensions liability following the annual assessment of the fund by actuaries acting on behalf of Kent County Council. There was a corresponding reduction in the value of unusable reserves. Whilst this had a substantial impact on the net worth of the Council as recorded in the Balance Sheet, statutory arrangements in place to fund the deficit meant that the financial position of the Council remained healthy. The deficit was currently being addressed through increased contributions to the fund over the working life of employees, as assessed by the scheme actuary.
- The Officers had made efforts to "de-clutter" the Statement of Accounts in recent years by removing unnecessary and immaterial disclosures. The remaining disclosures were considered necessary in order to comply with accounting standards.
- In terms of Key Performance Indicators, the net contribution generated from commercial activities was down against the budget due in part to the failure of the Mote Park Café to deliver income targets in 2016/17. A recovery strategy had been implemented and the Café was now breaking even.

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

- Consideration would be given as to how the Council's main sources of income could be cross referenced in the narrative report to where they show in the main financial statements.
- The Accounts showed that the balance on the general fund and earmarked reserves had decreased by £1.5m to £17.343m at the end of 2016/17, including unallocated balances. The decrease related to the use of New Homes Bonus previously set aside for capital expenditure to fund large acquisitions in 2016/17. The table set out in

note 7 to the Accounts should be amended to show contributions to balances of £2.815m, unallocated balances of £9.329m and a total General Fund Balance of £17.343m as at 31 March 2017. An update on movements in all balances would be included in the first quarter budget monitoring report in September, including movement in balances for New Homes Bonus.

- Current projections indicated that the Council had sufficient cash to fund planned capital expenditure during 2017/18 and following that it would be necessary to borrow to fund capital projects.
- Consideration would be given as to how more detailed information about what infrastructure projects the NHB has been spent on might be included in the Accounts.

The Director of Finance and Business Improvement also confirmed that he would circulate details about the way in which parish precepts are treated, as compared with precepts payable to Kent County Council, the Police and Crime Commissioner and the Fire and Rescue Authority, to all Members of the Committee and the Parish Council representative.

RESOLVED: That subject to the points raised in the discussion, the draft un-audited Statement of Accounts for the year ending 31 March 2017, attached as Appendix A to the report of the Director of Finance and Business Improvement, be approved.

21. TREASURY MANAGEMENT ANNUAL REVIEW 2016/17

The Committee considered the report of the Finance Manager setting out details of the activities of the Treasury Management function for the 2016/17 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. The Finance Manager explained that:

Economic Overview for 2016/17

- Following the EU referendum decision, sharp falls in Sterling exchange rates and rising fuel prices increased inflation to 2.3% in March 2017. The Bank of England cut the bank rate to 0.25% in August 2016 and increased quantitative easing to help stimulate growth in the economy, resulting in lower investment and borrowing rates. Rating agencies had downgraded the UK's sovereign rating to AA due to the uncertainty associated with the referendum decision. None of the banks on the Council's lending lists failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November.

Investment/Borrowing Activity

- During 2016/17, the Council's investment balances had ranged between £14.2m and £40.2m. The average investment balance for the year was £29.2m. The Council held investments totalling £15.86m as at 31

March 2017. Investment income for the year totalled £186k with an average rate of 0.58% against the benchmarked rate of 0.54%.

- All investments during 2016/17 had been short term due to rates not being sufficient to justify the risk of investing funds for longer periods. Funds had also been kept liquid being required to fund the Capital Programme and the daily liabilities of the Council throughout the year.
- The Council had not needed to borrow during 2016/17 except on two occasions for short term cash flow purposes. The total cost of the borrowing was £82.20.
- The Council's Treasury Management activities in 2016/17 had complied with CIPFA's Code of Practice on Treasury Management in Local Authorities and the Council's Treasury Management Strategy.

In response to questions, the Finance Manager explained that:

- The use of property funds had been looked at when they were doing extremely well in terms of capital appreciation and rental income, but it was now considered that, given the fall in returns and the length of time that the funds would be tied up, the Council's funds would be better invested in local infrastructure to achieve a rental income stream.
- Whilst it had been believed that there would be a prudential borrowing requirement of £11.95m in 2016/17, the only borrowing requirements had been for short term cash flow purposes due to slippage in the Capital Programme.

The Committee thanked the Finance Manager for a clear and comprehensive report.

RESOLVED:

1. That the review of the financial year 2016/17 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 2016/17.

22. EXTERNAL AUDITOR'S PROGRESS REPORT JUNE 2017

Mr Darren Wells presented the report of the External Auditor on the progress to date on the 2016/17 audit. The report also included a summary of emerging national issues and developments of relevance to the local government sector.

The Chairman drew Members' attention to articles and publications available on the Grant Thornton and National Audit Office websites which

they might find useful, including a Grant Thornton publication providing a broad overview of Local Authority Accounts.

RESOLVED: That the External Auditor's progress report, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted.

23. EXTERNAL AUDIT FEE LETTER 2017/18

The Committee considered the report of the Director of Finance and Business Improvement setting out details of the proposed external audit fee for 2017/18. It was noted that the main audit fee for the financial statements audit and value for money conclusion had been set at £50,475, which represented no change from the 2016/17 fee. The fee for grant claim certification work had not yet been set.

In response to questions, the Director of Finance and Business Improvement updated the Committee on the position with regard to the procurement of a new External Auditor. It was noted that the Council's current contract with its External Auditor was due to expire at the end of 2017/18, and the Council would need to appoint a new Auditor before 31 December 2017. The Council had opted-in to an outsourced procurement process under the aegis of the Local Government Association. Grant Thornton had won the biggest of the lots put out to tender, and it was anticipated that details of specific appointments would be announced next month.

RESOLVED: That the proposed audit fee of £50,475 for 2017/18 audit work (financial statements audit and value for money conclusion), to be undertaken by Grant Thornton, be noted.

24. COMMITTEE WORK PROGRAMME 2017/18

RESOLVED: That the Audit, Governance and Standards Committee work programme for 2017/18 be noted.

25. DURATION OF MEETING

6.30 p.m. to 8.25 p.m.