

Finance & Audit Committee

Tuesday, 12 June 2019

7:30pm

Present:

Cllr Gurbax Singh (Chair)
Cllr Colin Caller (Vice-Chair)

Cllrs: Derek Ashenden
 Dakota Dibben
 Sarah Gow
 Nirmal Khabra
 Ruth Martin
 Tony Rice
 Frank Wardle

Sarah Parfitt	Assistant Director (Corporate Services)
James Larkin	Head of Audit & Counter Fraud Shared Services
Alexandra Jarvis	Principal Accountant (Housing & Exchequer)
Ben Clarke	Committee & Scrutiny Assistant (Minutes)

1. Apologies for absence

An apology of absence was received from Cllr Ejaz Aslam; Cllr Frank Wardle substituted. Apologies of absence were also received from Stuart Bobby and the two representatives from Grant Thornton, Elizabeth Jackson and Emily McKeown.

2. Minutes

The minutes of the meeting on Tuesday, 12 March 2019 were signed by the Chair.

3. Declarations of Interest

No declarations of interest were made.

4. Annual Audit & Counter Fraud Report 2018-19

The Chair welcomed the new Members to the Committee and gave an introduction as to how he wanted the Committee to run and how they could all work together apolitically to make things run smoothly and efficiently during their time as Committee Members. Each of the Members and officers present also gave an introduction of who they were and their ward/job title.

The Head of Audit & Counter Fraud Shared Services appreciated that the Members were new to the Committee and informed them that that he would send out the Annual Workplan document, which was approved by the Committee in March 2019, and other various significant documents after the meeting which would help with their understanding of Audit & Counter Fraud reports.

The Audit & Counter Fraud Shared Service has provided update reports to Members at three meetings of the Finance & Audit Committee in 2018-19. The Annual Report reproduced the findings reported in those Update reports along with the results of work carried out since the last update, to provide Members with a summary of all the work delivered by the team in the year.

The Head of Audit & Counter Fraud Shared Services informed Members of the Audit & Counter Fraud work completed during 2018-19 and presented them with his opinion, as Chief Audit Executive, on the council's internal control environment.

The opinion and the reasoning behind it was listed on page 16 of the report; the opinion stated that: *'It is therefore my opinion that Gravesham Borough Council's framework of governance, risk management and system of internal control is adequate and effective, and contributes to the proper, economic, efficient and effective use of resources in achieving the council's objectives.'*

The Head of Audit & Counter Fraud Shared Services drew Members attention to key areas highlighting that:

- For the year year 2018/19, the Audit & Counter Fraud Plan for Gravesham was prepared with a resource budget of 660 days. As of 31 March 2019, the net staff days available for Gravesham for 2018-19 amounted to 583 days and 503 days (86%) were spent on productive audit and counter fraud work
- Non-productive work was classified as 'non-chargeable' time spent such as doing general admin work, timesheets and meetings etc
- The internal audits which were listed in the report from pages 19-42 use a traffic light rating system for their final opinions. In their simplest terms; green meant good overall, amber meant generally okay with some areas that needed reviewing and red meant there were significant issues that needed addressing
- The Audit & Counter Fraud Team have 24 performance measures which are detailed in the Quality and Assurance Improvement Programme on page 43; the programme is approved by the Committee during the year
- The cost of the Audit & Counter Fraud Shared Service to Gravesham was £193,242 which contributed to the overall cost of £536,785
- The total value of fraud losses identified totalled £166,760 which meant the service was almost completely self-financing through their work
- The service delivered 95% of its agreed Workplan which was on target and the proportion of recommended actions implemented by the agreed date was 91.6% which equated to very high performance
- With regard to the follow up of agreed recommendations; Management Team receive quarterly reports advising them on the progress of the audit recommendations and if a recommendation is still outstanding after six months then it is brought to the Committees attention. Management Team provided an update on page 54 of the report the two recommendations that were outstanding
- The external audit of the service was undertaken by Tonbridge & Malling Council and vice versa; they used a five tier traffic light system

The officers of the Committee fielded questions and comments from Members, explaining that:

- The Finance & Audit Committee is not a decision making body but it can make recommendations to Full Council; many reports ask for Members endorsement of the work that is carried out through the year which meant that Members effectively confirm that they have received sufficient assurances from officers to fulfil their governance role. Additionally by Members giving their endorsement, they state that they are happy with the results and findings of the reports they have been given
- When Members 'Note' a report, they recognise and are happy with the work undertaken by the service
- The Assistant Director (Corporate Services) confirmed that a one page executive summary listing the greens, ambers and reds of all the internal audit recommendations could be listed at the start of the report to make it easier for Members
- The Head of Audit & Counter Fraud Shared Services stated that if any individual audit with a red opinion would be discussed with the Section 151 Officer and Chair of the Finance & Audit Committee to determine whether it presented a financial risk exceeding £25K or affected the achievement of the core objectives, , in which case the full report for that audit would be brought to the Committee. Not all red audits were deemed significant issues to the Council and the previous Chair felt that the 2 red audits stated in the report did not meet the criteria to bring them to the Committee
- When recommendations are made for improvements in controls, the Audit & Counter Fraud Team go back to the audited service on an agreed upon date to check to see if the recommendations have been implemented rather than doing a full audit again the following year as this means the same services could be audited frequently with some others not being picked up
- The Council used to have six petty cash flows which, after being audited, were identified as not being controlled very well; as of 31 March 2019 four have been closed down and in the Civic Centre there is now only one petty cash float which is held by Finance. The last remaining petty cash float is at Brookvale due to them being located away from the Civic Centre however a review will be conducted in the summer to see what they use their petty cash for and if they still require a petty cash float

Resolved that Members:

- Endorsed the work undertaken by the Audit & Counter Fraud Shared Service for Gravesham during 2018-19 in providing an effective service to the council
- Considered and endorsed the opinion on the council's internal control environment provided by the Head of Audit & Counter Fraud Shared Service

5. Results of Audit & Counter Fraud Satisfaction Survey

The Committee was informed of the results of a survey aimed at identifying the level of satisfaction with the services provided by the Audit & Counter Fraud Team.

The Audit & Counter Fraud Shared Service with Medway Council has been in operation since March 2016, with 2018-19 being the third full year of operation. It was felt to be an appropriate time to issue a survey to Officers and Members of both organisations to receive feedback on the satisfaction with the services provided by the Audit & Counter Fraud Team. The report at Appendix 2 provided the detailed results of the responses received from respondents within Gravesham Borough Council and the overall response rate was around

30%, which was seen to be a good level of responses when compared to other surveys. Appendix 3 to showed the combined results of the Satisfaction Survey from Gravesham and Medway Councils.

The Head of Audit & Counter Fraud Shared Services explained that overall the satisfaction was largely positive, as seen in the Executive Summary on page 62, and he would be appealing to the respondents with negative responses to remove their anonymity so that a discussion could be had with them about why they felt that the service they received was unsatisfactory. Any discussions that were had with Service Managers regarding any issues would help the Team to improve their overall service within the two authorities.

Responding to a question regarding people disagreeing that 'the findings were accurate' on page 68, the Head of Audit & Counter Fraud Shared Services stated that there were a few issues in the early days of the shared service as, effectively, four terms were merged into one. Essentially, those disagreeing stemmed from a few inaccuracies that were found in some reports and steps have been taken to address those issues; that is why there are now meetings ahead of the draft report process where the auditors will sit with clients and attempt to iron out any inaccuracies before draft reports are shared with clients.

Resolved that Members:

- Noted the results of the Audit & Counter Fraud satisfaction survey 2018-19

6. Annual Treasury Management Review 2018-19

Members were advised of the treasury management activity during 2018-19 in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA's) revised code on Treasury Management (2017).

The Principal Accountant (Housing & Exchequer) stated that the Council was required to produce a minimum of three reports on Treasury Management every year and under the Local Government Act 2003 had to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018-19.

The Principal Accountant (Housing & Exchequer) explained that there were two main funds that were dealt with in finance which Members would receive reports on:

- General Fund – The General Fund is used to manage day to day services such as income and expenditure relating to frontline services to the public and other council departments with the exception of Council Housing. It is funded through sources such as Council Tax, business rates, grants, fees and charges
- Housing Revenue Account (HRA) –The HRA is a ring-fenced account meaning it cannot be subsidised by the General Fund; it accounts for income and expenditure which are directly related to Council housing stock. The HRA generates income through rental incomes and service charges and its expenditure is the cost of the housing department as well repairs and maintenance of the housing stock so that this is maintained to a reasonable standard

The Principal Accountant (Housing & Exchequer) guided Members through the report giving an introduction to each of the below sections, highlighting the key figures in each:

- The Council's Capital Expenditure and Financing – Page 80
- The Council's Overall Borrowing Need – Page 80
- Treasury Management Position as at 31 March 2019 – Page 83
- The Investment Strategy and Control of Interest Rate Risk for 2018/19 – Page 85
- Borrowing Strategy and Control of Interest Rate Risk Rates in 2018-19 – Page 86
- Borrowing Outturn for 2018/19 – Page 87
- Investment Outturn for 2018-19 – Page 87

Following a series of questions regarding the Property Funds and Multi-Asset Funds that the Council holds, on page 88 of the report, the Principal Accountant (Housing & Exchequer) explained that:

- Only the Property Fund Managers are able to change the weighting of the asset classes within each fund as they react to the economy; JP Morgan have reduced their exposure to the equity market recently due to a sharp decline in the performance of this asset type. GBC have monitored the funds regularly and will continue to have regular meetings with the Managers who hold the Council funds so that the Council is aware of nature of assets held in each investment fund.
- The Council could choose to disinvest from a Fund if it was unhappy with the type of assets it was investing in by taking out all or a proportion of its interest out of that Fund; the Treasury Management Strategy allows the Council to invest a maximum of £8 million in a single Property Fund or Multi Asset Fund
- A Multi-Asset Fund spreads the risk by holding assets in different asset classes such as cash, equity or bonds which are used as an investment
- Lothbury hold properties mainly in London, with some in Covent Garden which are exposed to the retail market. Lothbury also purchased Property for redevelopment into student accommodation in Oxford
- Hermes mainly buys properties in London which offer a very good rate of commercial return but can also be used for alternative uses. They have a lot of properties on the Thames and frequently sell properties in their portfolio to residential developers
- The CCLA Property Fund is only allowed to be used by Local Authorities and they have properties in Manchester; they have a very different strategy which, in the council's view is less precise than the other Funds so the Council invested a smaller sum of money with them
- The Council hired Link Asset Services as their investment advisor and Link helped the Finance Team to design a questionnaire which was sent to all the Asset Managers before any investment was made. Many of the Property Funds were very eager to convince Local Authorities to invest with them. In addition to the questionnaire, a selection Panel made of GBC officers and Link staff allowed presentations to be given by individual Fund Managers and for questions to be asked and answered. Once the selection Panel had discussed and developed a proposal for investing with the Property Funds, this was taken to the Property Acquisitions cross party working group for further debate and discussion, with the working group advising on the final placing of monies with individual funds.
- The issues that KCC have recently been facing with their investments in the Woodford Fund are completely different to Gravesham's situation as the Woodford Fund invested solely in companies whereas Gravesham's investments were in properties and assets. Disinvesting and receiving money back from failing companies is a lot more difficult than trading assets and selling properties so Gravesham's investments have a lower level of risk

- With regards to Capital Loss in the table at 8.5, the Funds sometimes lose a small percentage of the value that was invested into the Property Fund but the investment still provides the Council with an income return; the interest is paid over to the Council so even though the capital value has lowered, the Council is still making a revenue return on these investments. These were taken out a long term investments.
- A copy of the Treasury Management Strategy will be emailed out to all Members after the meeting
- During the review process, all Property Fund Managers are questioned about ethical investments and the Council receives assurances that all investments are ethical

A Member raised concern over the multi-million pound deal with Reef regarding the refurbishment of the St Georges Centre and the Heritage Quarter and asked that more information be given to them so that they could better understand the deal and the lease terms.

The Assistant Director (Corporate Services) stated that she would provide a briefing note, based on that given to the external auditors, regarding the Reef deal to Members and then review the agenda for the upcoming Local Government Finance explained training session and Statement of Accounts training session to see if a more detailed discussion on the matter could be included.

Following a question regarding the NHS occupied second floor of the Civic Centre, the Assistant Director (Corporate Services) advised that she could not comment on the NHS property strategy but their rental income helped to support the General Fund.

The Principal Accountant (Housing & Exchequer) explained that authorised limit was the maximum level of borrowing that the Council could potentially be exposed to; the operational boundary is the most likely level of borrowing the Council may need to take on to manage its operations; The authorised limit is intended to prevent the Council from borrowing more than is required, but provides some ability to manage unusual circumstances affecting its cash position, such two payroll runs or two creditor runs being taken from the council bank account. .

Resolved that Members:

- Noted the contents of the report
- Recommended to Full Council that:
 - The revised authorised limits and operational boundary figures, as set out in this report are agreed.

7. Annual Governance Statement: 2018-19

Approval of the Annual Governance Statement for the 2018-19 financial year was sought from Members of the Finance & Audit Committee.

The review of the council's 2018-19 governance arrangements was conducted by the Corporate Performance Manager in accordance with the principles adopted by the council's

Code of Corporate Governance, itself a framework designed upon the guidance issued by CIPFA/SOLACE.

As part of the review, assurance of the effective operation of the council's governance arrangements has been sought from a number of sources such as the Section 151 Officer, the Monitoring Officer, the Chief Audit Executive, external auditors and the Local Government Ombudsmen etc. All source material, including the results of the review itself, have been itemised at appendix two of the report.

The Assistant Director (Corporate Services) reminded Members that all of the documents listed at Appendix 2 that supported the Annual Governance Statement had been published on the web library, which could be accessed via the website. A Member of the Committee Team emailed around the link a few weeks ago.

The Assistant Director (Corporate Services) directed Members attention to page 101 of the report where the Annual Governance Statement was provided and explained that it would be a good reference document for new Members to get a feel of the governance framework Gravesham operates under.

The review established that the authority had adequate governance arrangements in place. Whilst no significant issues were identified, the review did present some opportunities to further develop and strengthen the council's governance and internal control environment.

The Assistant Director (Corporate Services) further explained those opportunities (page 107) and their required actions:

- Constitution
 - Complete the next phase of the scheduled review of the council's Constitution and re-issue to all Members.
- Investors in People (IIP): Action Plan
 - To develop an effective action plan with which to build on the recommendations of the 2019 IIP assessment, ensuring the council develops an operational culture in line with industry good practice.
- Communications and Engagement Strategy
 - In developing a Communications and Engagement Strategy the council will aim to establish the principles that will guide how we communicate and engage, in language that people can understand, and through readily accessible channels.
- Corporate Plan: 2019-23
 - Develop a new Corporate Plan for the council using the research and principles identified from the Community Profile and Corporate Plan consultation exercise, alongside the key pledges and messages established in the administration's election manifesto.

Referencing Appendix 1 on page 98, concern was raised over the explanations and their clarity; the Assistant Director (Corporate Services) advised she would feed that back to the responsible officer.

Resolved that Members:

- Noted the findings of the review of the council's governance arrangements for 2018-19
- Approved and supported the Annual Governance Statement for the 2018-19 financial year

8. Audit Fee Letter 2019-20

The Committee was informed of the external audit fee set for 2019-20. The Assistant Director (Corporate Services) stated that the letter at appendix two provided details of the audit fee for the Council along with the scope and timing of the planned work of Grant Thornton UK LLP and details of the staff that were responsible for delivering the audit.

In July 2016 Public Sector Audit Appointments (PSAA) was selected by the Secretary of State for Communities and Local Government to take on the role of Appointing Person for principal local government and police bodies. After consideration by the Finance & Audit Committee Members, Full Council resolved unanimously to accept the invitation to opt into the appointing persons arrangements made by PSAA for the appointment of external auditors. Following a procurement process managed by PSAA, the council accepted the appointment of Grant Thornton (UK) LLP as the auditor of Gravesham Borough Council for five years from 1 April 2018.

The Council's scale fee for 2019/20 has been set by PSAA at £41,036 which is the same as in 2018/19 and is a 23% reduction of the fee that was paid in 2017/18; the procurement exercise managed by the PSAA is the main driver for the reduction in price.

Resolved that Members:

- Noted the external audit fee for 2019-20

Close of meeting

The meeting ended at 9:09pm.