

Finance and Audit Committee

Tuesday, 16 July 2024

7.30pm

Present:

Cllr Ektaveen Thandi (Vice-Chair)

Councillors: Derek Ashenden
 Helen Ashenden
 David Beattie
 Lee Croxton
 Aaron Elliott
 Lyn Milner
 Tony Rana
 Jenny Wallace

Sarah Parfitt	Director (Corporate Services)
Pat Knight	Assistant Director (Corporate Services)
Andrew Barnett	Principal Accountant (General Fund)
Alex Jarvis	Principal Accountant (Housing and Exchequer)
James Larkin	Audit & Counter Fraud Shared Service Manager
Paul Dossett	Grant Thornton, Partner
Parris Williams	Grant Thornton, Director (Public Sector Audit)
Jasmine Kemp	Grant Thornton, Public Sector Audit Manager
Chloe Taylor	Committee Services Officer (Minutes)

1. Apologies for absence

Apologies for absence were received from Cllrs Larkins, Cllr Hart and Cllr Jassal. Cllr Rana, Cllr Milner and Cllr Beattie substituted respectively.

2. To sign the minutes of the previous meeting.

The minutes of the Finance and Audit Committee held on Tuesday 05 March 2024, were agreed and signed by the Chair.

3. Declarations of Interest

No declarations of interest were made.

4. The Annual Audit Letter for Gravesham Borough Council - Year ended 31 March 2020

The External Auditor (Grant Thornton) presented the Finance and Audit committee with a report that summarised the key findings that arose from the statutory audit for the 2019/20 financial year. The following key points were highlighted:

- Members would recall there was an elongated process for the 2019/20 accounts, which had been previously reported back to the committee within the audit findings report and a separate value for money report.
- Under the code of practice that existed at the time, the External Auditor was also required to produce the Annual Audit letter. There was no new information included within the letter.

Following questions and comments from members, the External Auditor (Grant Thornton) explained that:

- Grant Thornton concluded the audit of the 2019/20 accounts late last year and issued the audit opinion earlier this year.
- All recommendations for the council relating to the 2019/20 accounts had been responded to by Management.
- In relation to the audit backlog position, the Partner and Director (Public Sector Audit) provided their view on the current position, indicating their view that they expected the government backstop process to require accounts to be completed and audited for all years up to 2022/23 by the end of the calendar year, and that the subsequent catch-up programme would support that in 3 years from now, all audits would be back to a position to meet deadlines. Audit opinions may remain qualified in some circumstances for a 5-year horizon. This was not specific to Gravesham and was the expectation across to the local government sector. Grant Thornton was fully committed to the catch-up process.
- In relation to the Value for Money assessment, the next report on the agenda confirmed that there was no backlog on the value for money work of the External Auditor. The Director (Public Sector Audit) expected legislation to be passed to support the proposed audit backlog and catch-up processes, but this would be impacted by the recent General Election.
- Management was currently in the process of producing draft accounts for the outstanding years. Grant Thornton expected the 2023/24 accounts to be provided to them by management in the coming months and have currently scheduled the audit to commence in February 2025. As set out later in the agenda, the audit plan for the 2023/24 accounts would give assurance over the closing balances at 31 March 2024 and the transactions in year.
- The Director (Corporate Services) advised that despite the challenges the external auditors and management had in clarity on what would be required and by when from the audit backlog and catch-up process, there was good communication and working between the external auditors and management about how they could work together to get to a position where for 203/24, they can meet the current 31 May 2025 deadline. It was accepted that there will be a need for the disclaimers on audit opinions because the auditors would not be able to do what they were required to do under their code, to deliver a true and fair view. As part of the consultation document issued by the previous government on the audit backlog, there were questions around what the disclaimers may look like and what they may contain – it was important that they were a fair reflection of the position.
- The External Auditor agreed that up and down the country, there were concerns. The progress report showed that Grant Thornton was ahead of other firms in terms of performance. The reasons for the current position were multifaceted and complicated, such as audit resources, technical issues, accounts preparation, regulation, and the abolition of the audit commission. They were closing off as much of the old accounts as they could and would be discussing the way forward.

The committee noted the report.

5. The Auditor's annual report on Gravesham Borough Council - Year 2020/21, 2021/22 & 2022/23

The External Auditor (Grant Thornton) presented the committee with a report detailing the findings of the external audit assessment of the councils' arrangements for securing economy, efficient and effectiveness in the use of its resources during the 2020/21 and 2021/22 and 2022/23 financial year. The following key points were highlighted:

- The annual audit letter was under the old code of practice. For 2021 onwards, a new code of practice was introduced by the National Audit Office. The new code of practice required auditors to do more work in assessing value for money and required auditors to give a commentary on three areas: financial sustainability, governance, and arrangements for economy efficiency and effectiveness.
- This report brings together all the outstanding years, and summarised the detailed work done on value for money and gave an assessment for each year covered by the report.
- Governance, which was partly about scrutiny, risk management and internal audit/counter fraud, received a positive result.
- One key recommendation had been made regarding the need for the council to take action in relation to its financial sustainability in the medium term. This recommendation had also been made to many other council's facing the same financial challenges as Gravesham.
- Two improvement recommendations were issued relating to reporting on capital schemes and the council's procurement strategy.
- Management responses had been received for all recommendations made.

Following questions and comments from Members, the Director (Corporate Services) and the External Auditor (Grant Thornton) explained that:

- As part of the budget setting process, one of the Section 151 Officers obligations was to produce a section 25 report that sets out their view of the robustness of the budget process as well as the suitability of the council's level of reserves and working balances. This had flagged to all Members that the council were making use the working balances at a rate which was not sustainable.
- The 2024/25 budget was drawing down on around £1.95m from working balances to meet the spend plans for the year.
- The minimum level of working balances was £5.25m. This was made up of two sums: £2m to manage cashflow and £3.25m for a general reserve. It was indicated that based on projections at the time of setting the budget, at the end of the 2024/25 financial year, the council would have eaten into the £3.25m general reserve and that this was not a sustainable position for the council to maintain.
- Grant Thornton recognised that financial sustainability was an issue for all councils. Therefore, they were looking for how the council governs its finances. They noted Gravesham Borough Council was doing the best they could to extract the maximum from investments with partnerships, which was seen as proactive, and overall, the report was positive.

The committee noted the report.

6. Indicative External Audit Plan - Year ending 31 March 2024

The Director (Public Sector Audit) (Grant Thornton) presented the committee with a report that informed them of the indicative scope and timing of the statutory audit for the 2023/24 financial year. It drew members attention to key matters that would be considered to form part of the statutory audit process. The following key points were highlighted:

- The plan was labelled indicative as the risk assessment could not be completed fully with the open years from previous financial statements. Once the audit process for these years had been concluded, the External Auditor could confirm whether the indicative risk assessment has changed. However, the External Auditor did not expect it to significantly change.
- The External Auditor had identified 7 significant risks, purely in relation to the financial statements audit. It was explained that the first 5 would be seen on every local authority. The other two significant risks were specific to Gravesham Borough Council and related to the introduction of Group Accounts and The Charter redevelopment project.
- The External Auditor confirmed the intention to start the works on the 23/24 accounts in February 2025, subject to the draft statements being prepared by the council. It was noted that this did give auditors a short window to complete the audit against the timelines included within the recent consultation document.
- There were some fee variations subject to approval by PSAA.

Following questions and comments from members, the Director (Public Sector Audit) (Grant Thornton) and the Director (Corporate Services) explained that:

- Page 136 detailed a full reconciliation of the fees and proposed fee variations.
- Group consolidation refers to the group position where the council has consolidated the transactions of its Local Authority Trading Company, Rosherville Limited, and its subsidiaries and of the council. The intercompany element looks at transactions between the council and its subsidiaries. In producing the group accounts, management have to identify those intercompany transactions and eliminate them to produce the fair and true position of the group.
- It was recognised that local authorities in general were in a difficult position. Gravesham was not immune to those external pressures being felt by other local government bodies, as highlighted in the significant weaknesses raised in financial sustainability. The reserves for Gravesham Borough Council were depleting and towards the lower end of reserves being sustainable. The Director (Public Sector Audit) (Grant Thornton) advised that there were two types of councils; the first being councils that have taken decisions that did not turn out well and they found themselves in financial difficulties resulting in s114 (bankruptcy) notices being issued, and that was usually due to poor governance. He did not believe this was the case for Gravesham based on his initial risk assessment. The second cohort of local authorities had good governance and made sound decisions, but the financial pressures put them into a difficult position. He felt that Gravesham was absolutely within the latter category driven by inflationary costs and increase demand particularly around homelessness (temporary accommodation).

The committee noted the report.

7. Informing the audit risk assessment for Gravesham Borough Council 2023/24

The Public Sector Audit Manager (Grant Thornton) presented the committee with a report to provide them with the opportunity to consider and discuss the responses to a number of questions posed by the external auditor in relation to the council's management processes and arrangements for oversight in a number of areas.

The responses to the questions were prepared by management. They were presented to the committee as part of a requirement under auditing standards, and it was for the committee to decide whether the responses were consistent with its understanding.

Resolved that Members agreed the responses contained within appendix one were consistent with its understanding of the council's management processes and arrangements for oversight.

8. Audit Progress Report and Sector Updates - July 2024

The Director (Public Sector Audit) (Grant Thornton) presented the committee with a report informing them of the progress to date on the work of external audit. Members attention was drawn to emerging national issues and developments that may be relevant. The sector updates provided useful information for the committee.

The committee noted the report.

9. General Fund Provisional Outturn Report 2023/24

The Principal Accountant (General Fund) presented Members with the 2023/24 General Fund provisional outturn report 2023/24.

The following key points were highlighted:

- The report was titled as provisional as the accounts were still subject to the external audit process and any changes arising from that process would be reported at a future date.
- The provisional outturn position for the year was a favourable variance of just under £300,000 against the original budget position, which included favourable items such as salaries underspend, proactive action to manage the council's budget, interest payable and reduction in energy costs.
- The level of Working Balances at year-end was expected to be £6.35m.
- The Principal Accountant drew Members attention to significant variances contained within the report.
- Homelessness continued to be a challenging area with adverse variances of £756,000 – due to the proactive work of officers this figure has reduced from the previously reported figure of around £1m. Homelessness and temporary accommodation represented the single largest area of budgetary pressure across the council's General Fund.
- Expenditure on capital projects in the year was reported as just over some £10m. This compared to the original budget of around £74m, with movements related to adjustments associated with The Charter and the Leisure Centre scheme.

Following questions and comments from Members, the Principal Accountant (General Fund) explained that:

- During the year the council terminated the leasing structure in place for the St George's Shopping Centre, meaning the council now owned all levels of ownership for the centre.
- The Principal Accountant (Housing and Exchequer) explained that cash balances were made up from revenue generated during the year, plus any reserves held and capital receipts – these were used to fund the capital programme.
- Following a question from a Member, it was explained that it was possible to negotiate with the PWLB about early redemptions, but depending on prevailing interest rates compared to the rates when the loan was taken on, the PWLB would either charge a premium or a discount on any loans redeemed.

The committee noted the report.

10. Housing Revenue Account Provisional Outturn 2023/24

The Principal Accountant (Housing and Exchequer) presented the committee with a report that detailed the 2023/24 provisional Housing Revenue Account outturn including movements to the Housing Revenue Account working balances and general reserves. The report also presented the 2023/24 provisional Housing Revenue Account Capital Outturn.

The following key points were highlighted:

- The report was titled as provisional as the accounts were still subject to the external audit process.
- As of 31 March 2024, income and expenditure on the HRA was balanced with a contribution of £500,000 to establish a HRA priorities reserve fund for one-off costs that may result in revenue or capital savings.
- The Principal Accountant drew Members attention to significant variances contained within the report.
- Whilst the capital financing budget had an adverse variance of £6.5m, it reflected the positive actions taken within the Finance Team to respond to high interest rates during the year and repayment of debt.
- The Housing Capital Programme original budget was £20.6m. Capital budgets totalling £3m were carried forward from 2022/23 into 2023/24 and new schemes were approved during the year which gave a revised budget of £39.5m. As at 31 March 2024 spend totalled £14.8m which gives a variance of £25.4m, the majority of which will be carried forward into 2024/24

The committee noted the report.

11. Treasury Management Annual Review 2023-24

The Principal Accountant (Housing and Exchequer) presented the committee with a report on treasury management during 2023/24 in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFAs) revised code on Treasury Management. It was recommended that delegated authority be given to the Director (Corporate Services), in consultation with the Chair of Finance and Audit Committee, to

amend the figures in this report, as necessary, following successful completion of the final accounts process.

The following key points were highlighted:

- During the year the authority incurred capital expenditure totalling £24.9m. £16.7 was financed leaving £8m unfinanced.
- In consultation with the section 151 officer, new external borrowing was minimalised by utilising external cash balances due to the high prevailing interest rate of new debt. As a result, debt levels were below the council's capital financing requirement at the end of the year, and the internal investment balances were significantly reduced compared to the previous year.
- The council's true debts, i.e. the loans it has taken out and the remaining outstanding as of 31 March 2024 totalled £152m. The council's net debt position was £133.9m. This incorporated debt associated with the Housing Revenue Account as well as the General Fund.
- Investments as at the end of 31 March 2024 totalled £18.9m.
- Capital values across all externally managed property funds have continued to fall during the year and gave a combined value of £8.5m at the end of 31 March 2024.
- The Lothbury property fund was hit with some significant redemptions in 2023 which meant the future of the fund was uncertain. Attempts to restructure and merge with another fund was not possible and as a result the fund was terminated on 30 May 2024. Distributions of that fund were being paid to the council monthly.

Resolved that Members noted the contents of the report and agreed for delegated authority be given to the Director (Corporate Services), in consultation with the Chair of the Finance and Audit Committee, to amend the figures in this report, as necessary following successful completion of the final accounts process.

12. Internal Audit Annual Report 2023-24

The Head of Internal Audit & Counter Fraud Shared Service presented the committee with a report detailing the internal audit work completed during 2023-24. The report also outlined the opinion of the Head of Internal Audit & Counter Fraud Shared Service, as Chief Audit Executive, on the council's internal control environment.

The following key points were highlighted:

- At the start of the year, it had been forecast that 400 days would be available for internal audit work. Due to the impact of one auditor reducing their hours and underestimating the level of time required for professional qualification training – 356 days of chargeable activity were undertaken.
- By the end of the year, 84% of the audit plan for the year had been delivered, with a further 11% completed after year-end 79.1% of audit recommendations made and agreed with management had been implemented by the agreed date.
- Based on the work of Internal Audit, the Head of Internal Audit & Counter Fraud Service, as Chief Audit Executive, was able to issue positive annual opinion of the adequacy and effectiveness of the organisation's risk management, internal control, and governance processes.

Resolved that Members endorsed the work undertaken by the internal audit team for Gravesham during 2024 in providing an effective service to the council.

Resolved that Members endorsed the opinion on the council's internal control environment provided by the Head of Internal Audit and Counter Fraud Shared Service.

13. Counter Fraud Annual Report 2023-24

The Head of Internal Audit & Counter Fraud Shared Service presented the committee with a report showcasing the results of the counter fraud work completed during 2023-24, and highlighted the following key points:

- 352 days of chargeable activity were undertaken in the year, above the projected level of resource that would be available.
- The first fraud risk register for the council was presented in February 2024, and the top 10 risks were detailed within this report.
- There was good performance against all performance measures.
- The days for non-professional training had been split between two councils in error, making it 82.9 days – higher than projected.

Members noted the report and the importance of fraud awareness for the council.

14. Annual Governance Statement: 2023-24

The Assistant Director (Corporate Services) presented the committee with a report seeking approval of the council's Annual Governance Statement (AGS) for the 2023-24 financial year. The following key points were highlighted:

- As a local authority, the council has two core statutory duties relating to governance as legislated by the Accounts and Audit Regulations 2015. The first was to undertake an annual review of the council's governance framework and system of internal control. The second was to prepare and publish an Annual Governance Statement for the authority to report on its governance arrangements in the last financial year.
- The results of the review were duly considered and scrutinised by the council's AGS assurance group.
- The draft AGS was presented on page 359, with the key conclusion being that there were no significant control issues identified for the authority in 2023/24.
- There were several opportunities to further develop and strengthen the council's governance framework and system of internal control in 2024/25 and an action plan to take these opportunities forward had been included in the AGS.

Resolved that Members noted the findings of the review on the council's governance arrangements for 2023/24.

Resolved that Members approved and supported the Annual Governance Statement for the 2023/24 financial year.

15. Internal Audit & Counter Fraud Annual Surveys

The Head of Internal Audit & Counter Fraud Shared Service presented the committee with a report to inform them of the results from the surveys aimed at identifying the level of

satisfaction with the services provided by the Internal Audit & Counter Fraud Teams. The following key points were highlighted:

Internal Audit Survey

- The internal audit survey was issued to service managers and higher, including elected members as they were most likely to interact with internal audit.
- 13 responses were provided – broadly consistent with previous years.
- Responses received indicated a good understanding of internal audit's role.
- Responses received indicated a good level of satisfaction with the services provided by Internal Audit, with a positive response received from all respondents. Respondents were also satisfied with the overall service received, with 100% of those confirming receipt of services from the Internal Audit Team within the last twelve months, providing a positive score.

Counter Fraud Survey

- The counter fraud survey was made available to all council employees.
- 57 responses were provided – consistent with previous years.
- It was disappointing to see that almost 20% did not have good awareness and understanding of the role of the Counter Fraud Team despite focused efforts of the team during the year to promote the service, including fraud awareness sessions. This will continue to be an area of focus for the team.
- Satisfaction with services available received a neutral score, with an average of 7.61 out of ten but the 14 respondents who had received services from counter fraud within the last twelve months gave an average score of 8.93 out of ten with positive feedback in 93% of responses.

The committee noted the report.

16. Learning from Local Government Interventions

The Director (Corporate Services) presented the committee with a report that updated Members on the actions to further enhance or strengthen governance and culture within the council identified as a result of the self-assessment conducted in September 2023.

- The self-assessment had concluded that that the council had many strengths in its organisational culture and governance arrangements, but it did identify opportunities to be built upon to continue to develop and enhance those arrangements going forward and an action plan had been developed for these.
- All actions identified through the self-assessment had been progressed and moving forward the intention would be to include those indicators of culture or governance issues in the annual governance assessment process.

The Director (Corporate Services) explained that through work with the External Auditor, an opportunity had been identified to improve the arrangements around producing business cases and supporting members in the decision-making process. As a result of that a business case report template had been developed.

In response to a question from a Member, the Director (Corporate Services) pointed the committee to a report presented to Cabinet in June 2024, which outlined some of those

decisions that Members have taken over the last 18 months relating to the council's financial position.

Resolved that Members approved and supported the report including the intention to include those indicators of culture or governance identified in the DLUHC Guidance in the annual governance assessment process.

Close of meeting

The meeting ended at 9.26pm