

Finance & Audit Committee

Tuesday, 12 June 2018

7:30pm

Present:

Cllr Karen Hurdle (Chair)
Cllr Robin Theobald (Vice-Chair)

Cllrs: Lesley Boycott
 John Burden
 Leslie Hills
 William Lambert
 Shane Mochrie-Cox
 Peter Rayner
 Lenny Rolles

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

55. Apologies

Apologies of absences were received from Stuart Bobby (Director Corporate Services) and the representatives from Grant Thornton.

56. Minutes

The minutes of the meeting on Tuesday, 13 March 2018 were signed by the Chair.

57. Declarations of Interest

No declarations of interest were declared.

58. Annual Audit & Counter Fraud Report 2017-18

Members of the Committee were informed of the Audit & Counter Fraud work completed during 2017-18 and presented with the opinion of the Head of Audit & Counter Fraud Shared Service, as Chief Audit Executive, on the council's internal control environment.

It is an annual report for Audit & Counter Fraud for the period 2017-18 and Section 2 of the report on page 14 outlines the opinion of the Chief Audi Executive and the work undertaken. The overall opinion for the year is 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 directed Members attention to section 4 on page 15 which outlines the resources used throughout the year. The original Audit & Counter Fraud plan for Gravesham was prepared with a resource budget of 622 days but in actuality it amounted to 562 days with 484 days spent on productive audit and counter fraud work.

However, it should be noted that there were two officer's posts absent throughout the year and two officers on long term sick leave with one temp hired on to help over the period. Due to those factors impeding the amount of work that could be undertaken, the target of 95% of the audit plan being delivered was not met. However, the team still delivered 91% which is a very good performance when all of the absences are taken into account for the year 2017-18.

The tables shown on pages 17-20 of the report highlight the internal audit assurance work from 2016-17 that was completed during 2017-18 and the tables from page 20 onwards detail the outcomes/progress of 2017-18 work. All items in italics identify the work that was detailed in previous update reports. An update on the current position of the planned work for 2018-19 is listed on page 49 of the report.

Following Members questions and comments, the Head of Audit & Counter Fraud Shared Services explained that:

- The Audit & Counter team have no responsibility for anything relating to Universal Credit; all of that work including benefits is now under the remit of the Department of Work & Pensions (DWP). However, the Council do still complete the work in relation to the Council Tax Reduction Scheme
- Management Team are reported to on a quarterly basis in relation to recommendation follow up, which details the number implemented and those outstanding. Most of the recommendations shown as outstanding would normally be dealt with in the next reporting period. If there was an on-going significant issue it would be the responsibility of the Head of Audit & Counter Fraud to bring it to the Committee for Members' attention. Referring to the storing of documents for Taxi Licensing (page 42) – It was explained that particular recommendation actually refers to the documentation not being retained rather than it not being stored in line with GDPR guidelines, the paperwork was verified but it needed to be retained as an improvement.
- In relation to a query over the opinions (Red, Amber, Green) not matching the number of recommendations still outstanding, the Head of Audit & Counter Fraud explained that the opinion shown was the result of the original audit, which will not change. The reports will confirm whether the recommendations have been implemented or not.
- All recommendations do have a planned implementation date at which point the responsible officers are contacted for confirmation that it has been implemented and evidence sought where necessary. Any recommendation due this quarter will be picked up at the end of June

Following concern over the way the recommendations and opinions are shown in the report, the Assistant Director (Corporate Services) advised that those issues would be reviewed outside of the meeting.

Resolved that Members endorsed:

- the work undertaken by the Audit & Counter Fraud Shared Service for Gravesham during 2017-18 in providing an effective service to the council
- the opinion on the council's internal control environment provided by the Head of Audit & Counter Fraud Shared Service

59. Audit External Quality Assessment

Members were informed of the outcomes of the External Quality Assessment conducted by Gateway Assure in February 2018.

The Head of Audit & Counter Fraud Shared Services highlighted the following key points from the report:

- The external quality assessment assessed the service's compliance with the PSIAS. The assessment was broken down into three key areas: Resources, Competency and Delivery
- The assessment indicated that the service was performing at or above the average benchmark levels of the Local Government Sector with a full assessment of the findings listed in Appendix 2
- There were a number of recommendations for improvement shown on page 81 of the report which detailed the issue and the actions undertaken to address the recommendation put forward

The Committee raised the following concerns over the recommendations and actions proposed:

- Page 67, A Single Approach to the Audit Recommendations – The two authorities (Medway and Gravesham) are different and there should not be a single approach for the audit recommendations as that means removing the low priority risk rating; if that is removed the Committee would not know all the issues. A low risk could become more a problem in the future as such. The Committee needs to be fully aware of everything that is occurring within the Audit & Counter Fraud Team
- Low level items not being written up in the report to Members – All risks should be listed in the report in a transparent way, even low level risks should be in a table which Members can clearly find. A small sentence is all that is required next to the risk explaining the problem or the action being undertaken; Members can then identify it and muster a debate upon the subject if necessary

The Head of Audit & Counter Fraud Shared Services clarified that low priority recommendations are at present reported to Members at Medway in the same manner as GBC. Members' opinions are being sought on whether they wish to change to low priority not being formally recorded as per the assessors recommendation. All risks will still be reported the same in all the audit reports for Members and laid out in a manner that is suitable for the Committee as requested.

The Head of Audit & Counter Fraud Shared Services also explained that Medway use a four tier opinion system compared to GBC's three tier colour system. It is a decision for Medway Members as to whether they wish to change the opinion structure. There would be no change for Gravesham.

The Chair stated that all risks will be reported but added that there should be a greater degree of detail given to the outstanding recommendations.

Resolved that Members agreed to:

- Endorse the work already undertaken in relation to recommendations R2, R5, R6, R7, R8, R9, R10, R12, R15, R16 and R17, and the proposed actions to be taken by the audit & counter fraud team in relation to recommendations R1, R3, R4 and R11
- Approve the proposed changes to recommendation priorities as per recommendations R13

60. Annual Governance Statement - 2017-18

The Director (Corporate Services) sought approval from Members of the Finance and Audit Committee of the Annual Governance Statement for the 2017-18 financial year.

The Assistant Director (Corporate Services) advised that the Council's current Code of Corporate Governance was adopted by Full Council in February 2017 and the Annual Governance Statement provides the outcome of the annual review of the effectiveness of the council's governance framework against the Code. The Annual Governance Statement (AGS) is required to be presented to the Finance & Audit Committee annually as the Committee charged with governance.

Members should have received an email last week which held links to all the associated documents used as evidence to support the preparation of the Annual Governance Statement. A summary of the information provided is included on page 95 of the report and page 97 – 105 pertains to the draft Annual Governance Statement.

The recommendations on page 104 outline the control issues that require attention but the review had not identified any significant issues, rather it had identified ways to improve the controls that are already in place.

A point was raised by a Member that there should be one policy hub online that all Members can have access to in which all Gravesham policies are located; it would be useful as Members could direct constituents to various policies in all areas of the Council.

The Assistant Director (Corporate Services) advised the Committee that there is a policy library published on the website which holds all public-facing policies as well as a Netconsent policy hub that GBC officers have access to. The Assistant Director (Corporate Services) advised she would consult with Ben Turner to see if Members had access to the Netconsent hub. Ben Turner is also currently compiling a review of corporate policies to ensure that all of Gravesham policies are up to date with any exchanges that have occurred over the last year.

Resolved that Members:

- Noted the findings of the review of the Councils governance arrangements for 2017-18
- Approved and supported the Annual Governance Statement for the 2017-18 financial year

61. Annual Treasury Management Review 2017-18

The Committee was informed of the treasury management activity during 2017-18 in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA's) revised code on Treasury Management 2009.

The Principal Accountant (HRA & Exchequer) outlined the following key points:

- Despite the low Bank of England rate, the council was able to generate a good level of investment return;
- As at 31 March 2018 the three Property Fund investments in Lothbury, CCLA and Hermes, achieved an average return of 4.13%. In addition to the income received from each fund, there has also been capital growth of 6.47% across the funds since the initial deposits were placed. The capital growth on Lothbury was 6.08%, Hermes saw a growth of 9.84% and CCLA saw capital growth of 2.29%
- Towards the end of the financial year £10 million was placed in Multi-Asset Funds which saw a rate of investment return at 5.78%, but also saw a dip in capital value of £254K. It was emphasised that these types of investments are held for the long term, so a short term dip in capital value should not be of concern at this time.
- The internally managed investments made a rate of return at 0.448%, outperforming the benchmark of 0.286%.
- Total investment return were £154K above the budgeted value
- The Council undertook no borrowing during 2017-18 and the level of debt held by the Council was reduced. On 26 March 2018, a further loan the Council had taken on as a result of HRA self financing matured. Loan principal totalling £3,504,000 was repaid. The Council has made a voluntary contribution of Minimum Revenue Provision (MRP) equal to the loan principal in order to reduce the CFR accordingly
- There were two amended figures on Appendix A for the 2017-18 Actual 'Ratio of Financing costs to net revenue stream'
 - Non-HRA – 3.93%
 - HRA – 24.34%

The Principal Accountant advised she wished to add an additional item to the agenda in relation to the Annual Treasury Management Review 2017-18 item; it pertained to the investment balance for the Treasury Management Strategy that was previously agreed by the F&A Committee and recommended to Full Council.

The Principal Accountant advised that the council had recently reached agreement in relation to the redevelopment of the St George's Shopping Centre which has resulted in an amount being deposited with the Council to forward fund the development and to support the rental income of the centre. At the moment there are constraints with the Council's ability to invest these sums due to the investment limits set in the Treasury Management Strategy.

Following a discussion, it was agreed by the Committee that a report would be taken to Full Council on 26 June 2018 requesting an amendment to the Treasury Management Strategy Statement to increase in the investment limits of the Council. It was agreed that finalisation of this report would be carried out in conjunction with the Chairman and Vice-Chairman of the Finance & Audit Committee as well Cllr John Burden.

The Assistant Director (Corporate Services) also advised that there two more property acquisitions being considered that would be prudent additions to the property portfolio of the Council. These have been discussed with the Property Acquisitions Cross Party Working Group and a report will be presented to the next Full Council to seek approval to extend the portfolio funding to enable these two acquisitions to take place.

After questioning by a Member, the Assistant Director stated that options are still being looked into for the commercialisation of activity down at the Brookvale Depot as part of the service review process. Their main focus has been the waste rollout scheme over the last year. In relation to EDC building offices near the Brookvale space, the deal has been taken off the table due to their internal review. However, if it is discovered there is a potential market for an office building on that site, all options will be investigated and sources of funding considered at that time, including borrowing.

Resolved that Members noted the contents of the report.

62. Letter to Those Charged with Governance

Members were provided with an opportunity to consider and discuss a number of questions posed by the External Auditors to the Finance & Audit Committee in relation to the council's arrangements to manage fraud risk and ensure legislative compliance.

The Assistant Director (Corporate Services) advised that it is a standard requirement of Grant Thornton as part of their Annual Audit to maintain dialogue with the Finance & Audit Committee.

As part of the audit risk assessment procedures, Grant Thornton UK LLP has posed a number of questions directly to the Finance & Audit Committee regarding how the committee oversees the council's management processes and arrangements. Members were requested to consider and agree the response of the committee to these questions as set out at Appendix Two to this report.

Members raised concern over the wording used on page 127 describing the Audit & Counter Fraud team as an 'independent' instead of as a shared service. The Assistant Director (Corporate Services) advised that the wording of this response would be reviewed after the meeting taking in Members' concerns.

Resolved that Members agreed the response to the letter from Grant Thornton UK LLP, as set out in Appendix Two of this report, is consistent with its understanding of the council's management processes and arrangements, subject to the comment raised by Members.

63. Audit Fee Letter 2018-19

Members were informed of the external audit fee set for 2018-19.

Following a procurement process managed by PSAA, the council accepted the appointment of Grant Thornton (UK) LLP (the council's current external audit provider) as the auditor of Gravesham Borough Council for five years from 1 April 2018.

The Assistant Director (Corporate Services) advised that individual scale fees have been reduced by 23% from the fees applicable for 2017/18. The Council's scale fee for 2018/19 has been set by PSAA at £41,036.

The Committee were happy with a reduced fee but did express their concerns that such a lowered fee may mean that Grant Thornton produce a more streamlined work process that impacts negatively on the Council's external auditing.

The Assistant Director (Corporate Services) understood Members fears and explained that it is a competitive quote and the work programme conducted by the external auditors is set by the Code of Practice, so the extent of assurance should not change although there will inevitably be a change in their approach. Members were also advised that the PSAA had established a Local Audit Quality Forum the first of which she had attended and future sessions will be notified also to the Chair of the Committee, who was unable to attend this first session. Feedback on future such events can be fed back to the Committee.

It is likely that auditors will not be located on site as much and will approach the audit more in a commercial manner than before. One potential concern could be that if the auditors identify an issue during audit or the council do not deliver their requirements of the audit, then the charges could creep up. The Assistant Director (Corporate Services) assured the committee that, in the view of herself and the S151 Officer, the council had prepared a high quality statement for 2017-18 and that officers had been communicating with representatives of Grant Thornton well in advance of this year's audit commencing, so the hope is the risk of price increase is being mitigated as much as possible all the while these arrangements are in place.

Resolved that Members noted the audit fee agreed with officers.

Close of meeting

The meeting ended at 8:37pm.