

# Finance & Audit Committee

Tuesday, 12 March 2019

7:30pm

## Present:

Cllr Lenny Rolles (Chair)  
Cllr William Lambert (Vice-Chair)

Cllrs: John Burden  
Leslie Hills  
Samir Jassal (Sub)  
Shane Mochrie-Cox  
Peter Rayner  
Robin Theobald

Sarah Parfitt	Assistant Director (Corporate Services)
James Larkin	Head of Audit & Counter Fraud Shared Services
Andrew Barnett	Principal Accountant (General Fund)
Elizabeth Jackson	External Auditors, Grant Thornton
Ben Clarke	Committee & Scrutiny Assistant (Minutes)

## 99. Apologies for absence

An apology of absence was received from Cllr Karen Hurdle. Cllr Samir Jassal substituted.

## 100. Minutes

The minutes of the meeting on Monday, 18 February 2019 were signed by the Chair.

## 101. Declarations of Interest

Cllr John Burden declared an interest on item 4 '2018-19 External Audit Plan' as he is a Member on the Kent Superannuation Fund Committee

## 102. 2018-19 External Audit Plan

Members were informed of the planned work of the external auditor in conducting their audit of the Council's Statement of Accounts 2018-19.

The External Auditor, Grant Thornton advised that the auditors had completed their interim fieldwork visit and provided a short report on their conclusions which was attached at Appendix Three for Members information.

The External Auditor, Grant Thornton, outlined to Members that three significant risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error had been identified. The reasons for their risk identification were explained on page 22 of the report:

- Management override of controls

- Valuation of property, plant and equipment
- Valuation of pension fund net liability

The External Auditor, Grant Thornton, further explained that:

- The level of materiality for the council was slightly lower than in previous years due to decreased expenditure by the council. In giving the audit opinion, it must be determined if the accounts are true so materiality had to be calculated; Grant Thornton determined Gravesham's planning materiality to be £1.50m (PY £1.59m), which equated to 2% of the prior year's gross expenditure for the year. Grant Thornton were obliged to report uncorrected omissions or misstatements other than those which were 'clearly trivial' to those charged with governance. For Gravesham Borough Council, the 'clearly trivial' figure was set at £75K (PY £85K)
- The risk assessment regarding Council arrangements to secure value for money has identified Brexit as a VFM risk; all local authorities in Kent have Brexit as a risk as Grant Thornton have to recognise the potential risks Kent faces depending on the outcome of the Brexit vote. Grant Thornton will review GBC's arrangements and plans in place to mitigate any risks relating to Brexit. The review will focus on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments
- With regards to the Audit Logistics a timetable has been agreed that the final visit will take place between June and July 2019 in order to meet the Finance & Audit Committee report deadlines. The total fee for the external auditing has decreased by 25% due to the procurement exercise undertaken by PSAA

The Committee raised concern over the technical jargon used throughout the report; Members felt that Councillors that were new to the Committee after the May elections would have trouble understanding it. It was understood that legally some of the technical terms had to be used but the Committee asked that a 'laymen's terms' explanation also be included so that it could be universally understood by both Members and the public.

The External Auditor, Grant Thornton advised that she would feed that comment back to her team for future reporting.

The Assistant Director (Corporate Services) agreed with the Members sentiment to assist new Members, adding that officers of the council will provide training on financial areas of the Committee. The Committee handbook will also be updated to make sure all Members are well equipped in their role.

**Resolved** that Members noted the information contained within the report.

### **103. Review of Accounting Policies 2018-19**

The Principal Accountant (General Fund) sought endorsement of the Accounting Policies to be used in formulating the Financial Statements for the authority for the financial year 2018-19.

The Principal Accountant (General Fund) stated that the Code for 2018-19 had been published and a review of the Council's accounting policies had been conducted to ensure that they were in line with the requirements of The Code.

There were two main changes to the Code that were identified as being of influence to the council's accounting policies for 2018-19, principally from new International Financial Reporting Standards (IFRSs). They concern the adoption of **IFRS9 - Financial Instruments**, and **IFRS 15 - Revenue from Contracts with Customers**. Other accounting policies remained in line with those used to prepare the 2018-19 Statement of Accounts. A summary of the changes to IFRS15 and IFRS9 could be found on paragraph 2.2, page 38 of the report.

The Principal Accountant (General Fund) informed Members that the accounting policies had been shared with the external auditors and may therefore be subject to any comments / feedback from the Council's external auditors. Any material changes to the accounting policies subsequently found to be necessary will be accompanied by an explanation of the impact of the change in policy within the financial statements.

The External Auditor, Grant Thornton, clarified that she was happy with the Accounting Policies 2018-19 as they were set out following the standard CIPFA guidance. A briefing paper will be written up, in conjunction with Gravesham officers, on the two changes (IFRS9 and IFRS15) as they are management judgements that will be used in making decisions to produce the accounts. The briefing paper will be used to help audit the accounts as it will advise what has been carried out and the explanations for those decisions. It will be shared with the auditors to provide them with assurance that the Council have properly considered the new CIPFA Code requirements and are compliant with them.

Concern was again raised by the Committee that the report had too much technical jargon; they asked that in future the reports be written up in terms that the whole Committee could understand so that Members could make informed decisions.

The Assistant Director (Corporate Services) advised that there will be a training session on the Statement of Accounts in July 2019 that will take Members through the accounts in a manner that is intended to be both understandable and meaningful to them.

Regarding IFRS9 – Financial Instruments, the Assistant Director (Corporate Services) fielded questions explaining that:

- The IFRS9 changes do not affect commercial property that the Council purchases and the Standard doesn't capture anything through the Property Acquisition Strategy. It seeks to reclassify the investments the Council has made and make an assessment of risk associated with different financial instruments. The financial instruments captured by the IFRS9 that will result in the most significant accounting changes will be the multi asset funds and property funds. The Government introduced a five-year statutory override for local authorities so it won't affect the 'bottom line' of the General Fund in any way for five years but the council will be required to follow the accounting requirements of the Standard and if the override was removed after five years as currently proposed, the council would need to review its investment in these types of financial instrument.
- The Funding Managers have their own financial regulations and auditing requirements that they have to follow to ensure the information they have produced is accurate
- It would be unlikely that the Council would disagree with the final valuation as monthly statements are received monthly and the information is constantly monitored for any irregularities. Those statements provide the Council with a degree of narrative during the specified time period on what has happened with the investments. If there

was anything that the Council did not agree with, then the opportunity to discuss it with the Funding Managers would be after the monthly statements. But ultimately, GBC rely on their checks and balances to ensure that they are valuing the Council's assets appropriately. However, Members were assured that the Council was seeking to improve their own monitoring arrangements for the property funds, multi-assets funds and the property portfolio as a whole due to the increased exposure than in previous years

- Members were able to seek out information on the Council's investments from the quarterly Budget Monitoring Reports that are brought to the Finance & Audit Committee; the information provided in those reports could be openly challenged and scrutinised by Members at each Committee meeting. During those discussions, the Committee would be able to consider if the investments were still providing adequate financial security for the Council and raise any concerns.

Comment was made by a Member over the investment strategy and the opportunity to increase Member involvement; he suggested that the Chairman receive more frequent updates about how the investments were faring. In turn, the funds would be monitored more closely and the Chairman could call emergency Finance & Audit Committee meetings as the investment funds change frequently in small periods of time and could require readjusting.

**Resolved** that Members endorsed the use of the Accounting Policies as outlined at Appendix Two to the report, subject to comments from the Council's external auditor.

#### **104. Audit & Counter Fraud Charter**

The Head of Audit & Counter Fraud Shared Services sought Member approval for the Audit & Counter Fraud Charter.

The Head of Audit & Counter Fraud Shared Services explained that a full review of the charter had been undertaken and whilst there were no fundamental changes to the content, a number of changes to the wording were made to reflect the new wording of a CIPFA Local Government Advice Note issued on 28 Feb 2019 to clearly demonstrate that the Council met the requirements. A copy of the charter was provided at Appendix 2 and the amendments were shown as tracked changes for ease of reference.

After a short discussion on the removal of some key points from the Charter, the Head of Audit & Counter Fraud Services agreed that he would add 'The service will also have direct access to the Chairs of the Audit Committees' back into the Audit & Counter Fraud Charter.

The Head of Audit & Counter Fraud Shared Services advised that he reports to both Section 151 officers at Gravesham and Medway Councils; he assured Members that the two officers regularly met with each other and any issues that arise from either Council would be discussed or brought to their attention very quickly.

The Committee thanked the Head of Audit & Counter Fraud Shared Services for including the actual tracked changes within the report as it was very useful and made it easier for Members to physically see what had been amended in the report.

**Resolved** that Members approved the Audit & Counter Fraud Charter subject to the aforementioned amendments.

## 105. Audit & Counter Fraud Plan 2019-20

The Head of Audit & Counter Fraud Shared Services sought Member approval for the Audit & Counter Fraud 2019-20 Plan for Gravesham which was attached at appendix 2.

The plan had been prepared in line with the requirements of the Standards and was based on a cyclical programme of core financial and governance activities as well as a risk assessment to ensure the team's resources were directed to the highest areas of risk.

In response to a Members concerns over officers using qualitative and quantitative data appropriately and an evaluation on the actual concept of shared arrangements in the next quarter, the Head of Audit & Counter Fraud Shared Services advised that:

- With regard to shared working arrangements, in item three of the report, the Audit Team sets out their responsibilities and states that they will be carrying out a review of partnership frameworks and shared working arrangements to ensure everything is in place and beneficial to the Council
- He would feed back the comment, ensuring qualitative and quantitative data is captured during the data collection, to the auditor that will be carrying out that piece of work

The Committee queried ten days of resources being allocated to review the Councils Constitution as a number of changes to the Constitution had previously been agreed at the meeting of Full Council on Tuesday, 26 February 2019. It was suggested that that ten day allocation would be better served reviewing the Planning Department and their processes.

The Head of Audit & Counter Fraud Shared Services directed Members attention to 'Ref 1' on page 74 advising them that the Audit Team were required to review the Constitution under the review of the Councils corporate governance arrangements on a periodic basis. The review isn't looking at the Constitution itself but rather the controls and processes behind the Constitution to ensure they are still effective and carried out properly.

The Assistant Director (Corporate Series) added that a series of changes had been made to the Constitution but there was still much work to do; the Council is conducting a comprehensive review of the Constitution, the outcomes of which would be passed through Full Council, which would ensure Member involvement.

On the matter of Planning, the Corporate Performance Team will be reviewing the processes of the department as part of the SRT Review options which aimed to review the effectiveness and efficiency of the planning service. An external review was conducted but internally the Corporate Performance Team will be directed to carry out process reviews which will identify opportunities to change some of the processes currently followed by the planning team. The changes will seek to increase efficiency across the department.

A short discussion was had in response to the Chairs question on the shared working arrangements with Medway and the recent issue that was still being investigated with the CCTV shared service. The Assistant Director (Corporate Services) advised Members that the investigation was still ongoing and there was no update to provide Members. The Assistant Director (Corporate Services) committed to give a full update to the Committee as soon as it became available.

Concern was raised by the Committee over shared services and the control mechanisms in place to ensure the shared services performed effectively and Members were kept up to date with all relevant information.

The Assistant Director (Corporate Services) explained that the reviews and performance information of individual shared service arrangements go through their respective Cabinet Committees. Any concerns would most likely be brought to the attention of the relevant Portfolio Holder. Members could seek assurance or raise concerns about those services at the Cabinet Committees or by discussing it directly with the Portfolio Holder. Senior management team also continuously monitor the shared service arrangements within the Council and would report any major concerns to the Portfolio Holders and the Leader. The Assistant Director (Corporate Services) agreed to clarify the arrangements in place and email Members with an update after the meeting.

The Committee suggested that there needed to be a proper formal arrangement in place that informed Cabinet Members whenever there was a problem with the shared service arrangements and established a chain of communication between officers and Members.

The Assistant Director (Corporate Services) advised the Committee that she would raise the discussion at a Management Team meeting for discussion and report back to the Committee.

A Member pointed out that the Constitution had too much technical jargon within the wording and needed to be simpler for Members to understand. The Assistant Director (Corporate Services) advised that she would pass that comment back to the Head of Shared Legal Services.

**Resolved** that Members approved the Audit & Counter Fraud 2019-20 Plan for Gravesham subject to the aforementioned amendments.

## **106. Draft Response to 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.

As part of the audit risk assessment procedures, Grant Thornton UK LLP posed a number of questions directly to the Finance & Audit Committee regarding how the committee oversees the council's management processes and arrangements. A copy of the letter sent to the Chair of the Finance & Audit Committee was provided at Appendix Two.

It was suggested by a Member that the Housing Ombudsmen report be included as a source of assurance in the response to the question 'How does the Finance & Audit Committee gain assurance that all relevant laws and regulations have been complied with?'

Members discussed the role of the Audit Committee and its scope of work. The Assistant Director (Corporate Services) added that the PSAA were keen to raise the profile of Finance & Audit Committees and she intended to prepare an annual report for the Committee which could be shared with all Members to discuss the work the Committee carried out through the year. The intention is that the report will show Members the important work that is carried out at the Committees and encourage more participation.

Following a Member request and with the Chairs approval, the Assistant Director (Corporate Services) agreed to circulate the report to all Members to give them a better understanding of the work that is undertaken at the Finance & Audit Committee.

The Chair asked that the report be written in a manner that could be understood by all Members and asked that the notion be taken to MT to conduct similar reports at the other Committees.

Following a suggestion to give Members access to the Finance guidance booklet created a number of years ago, the Assistant Director (Corporate Services) advised that it will be updated with fresh guidance for the new Members after the May elections.

**Resolved** that Members agreed the response to the letter from Grant Thornton, subject to the aforementioned amendments, was consistent with its understanding of the Council's management processes and arrangements.

#### **Close of meeting**

The meeting ended at 8:40pm.