

Finance & Audit Committee

Tuesday, 10 March 2020

7:30pm

Present:

Cllr Gurbax Singh (Chair)
Cllr Sarah Gow (Acting Vice-Chair)

Cllrs: Derek Ashenden
Ejaz Aslam
Dakota Dibben
Nirmal Khabra
Elizabeth Mulheran
Tony Rice

Sarah Parfitt	Assistant Director (Corporate Services)
Andrew Barnett	Principal Accountant (General Fund)
Helen Thaqi	Audit & Counter Fraud Shared Service Team Leader
Nikki Ashby	Audit & Counter Fraud Shared Service Team Leader
Liulu Chen	External Auditor, Grant Thornton
Ben Clarke	Committee & Scrutiny Assistant (Minutes)

44. Apologies for absence

An apology for absence was received from Paul Grady – the External Auditor, Grant Thornton.

45. To sign the minutes of the previous meeting.

The minutes of the meeting on Monday, 17 February 2020 were signed by the Chair.

46. Declarations of Interest

Cllr Gow, Cllr Rice and the Assistant Director (Corporate Services) declared an Other Significant Interest for agenda item 8 as appointed Directors of Rosherville Limited, the Council's Local Authority Trading Company.

47. Order of Agenda

The Committee agreed that agenda item 10 & 11 be brought forward as the External Auditor, Grant Thornton had to leave the meeting early.

48. 2019-20 External Audit Plan

Liulu Chen introduced herself to the Committee as the new Audit Manager from Grant Thornton and presented Members with the External Audit Plan for the year ending 31 March 2020.

The External Auditor, Grant Thornton advised Members that the three significant risks identified were the same as in the External Audit Plan for 2018-19. Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error were identified as:

- Management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liability

The External Auditor, Grant Thornton further directed Members attention to page 5 of the report which explained the findings for the below headlines:

- Materiality
- Value for Money Arrangements
- Audit Logistics
- Independence

In response to Members questions, the Assistant Director (Corporate Services) and the External Auditor, Grant Thornton explained that:

- KCC operate the Local Government Pension Scheme; the Council pay them the staff pension contributions and they invest and manage the liability of that fund. The Council are required, annually, to value the liabilities under the Local Government Pension Scheme and the auditors focus on the significant numbers that appear on the balance sheet. The auditors focused on the balance sheet figures as they were significant and they are obliged to confirm that the sheet is balanced correctly
- The Financial Reporting Council (FRC) specifically highlighted that the quality and extent of work around PPE, Investment Property valuations and IAS 19 valuations had to increase across local audit . Therefore Grant Thornton had to engage with more audit experts and extend the level of work and resources to meet the increased requirements resulting in the revised scale fee
- With regards to certification of Housing Benefit Grant, the Council receive a grant from the Government for housing benefit. Grant Thornton then carry out sample testing of random residents housing benefit claims to check if the claims were valid and calculated correctly. Upon confirmation that the housing benefit claims are valid and correctly calculated, a certification is issued to Gravesham which the Council is required to submit. If any mistakes or errors were identified then Grant Thornton were required to conduct further work and extrapolate the risks; if numerous errors were identified then there was also the possibility that the Council may have to repay a certain amount of grant funding

Following a question, regarding if it was a mandatory requirement or a choice by Grant Thornton to have their findings verified externally, the External Auditor, Grant Thornton advised that she would consult with the Engagement Lead for Gravesham and circulate an answer after the meeting.

The Chair thanked the External Auditor, Grant Thornton for her presentation.

49. Interim Progress Report

This item was dealt with under item 11 – 2019-20 External Audit Plan.

50. Review of Accounting Policies 2019-20

The Committees endorsement was sought for the Accounting Policies to be used in formulating the Financial Statements for the authority for the financial year 2019-20.

The Principal Accountant (General Fund) advised that they identified no major changes to The Code that will influence the Council's accounting policies for 2019-20. Therefore, the accounting policies will broadly remain in line with those used to prepare the 2018-19 statement of accounts, although the wording of accounting policies has been updated where necessary to provide greater clarification.

The Principal Accountant (General Fund) drew Members attention to paragraph 2.3, as with the agreement of the Council's Engagement Lead from Grant Thornton following a discussion in autumn 2019, the de-minimis level when considering accruals will be increased from £750 to £2,000 for preparation of the 2019-20 accounts. An accrual relates to adjustment for income or expenditure which hasn't been recorded yet such as expenses not paid or income not yet received.

The Council has been required to undertake an assessment to see what the impact of the new accounting standard listed at paragraph 2.4, IFRS 16 – Leases, will have on the Councils accounts as all qualifying leases will now be recorded on the Council balance sheet as assets and what's owed on that asset will become its liability. Officers from the Finance Team have already identified steps for existing leases and have ensured arrangements are in place to comply with the new standard. The new accounting standard has not directly affected the preparation of the financial statements for 2019-20.

The Principal Accountant (General Fund) concluded that the accounting policies have been shared with the external auditors and may therefore be subject to any comments / feedback from the Council's external auditors.

The Assistant Director (Corporate Services) and the Principal Accountant (General Fund) fielded questions from the Committee, explaining that:

- The impact of the new accounting standard IFRS 16 will not have a hugely significant impact on the Council; officers have attended various training courses on the standard and preparations have already been undertaken. Discussions have been held with senior managers, budget holders, the contracts register and various lease agreements have been reviewed. The Council has various leases; an example being the big belly solar panel bins and a £35K annual lease fee for the Woodville's cinema equipment. All of those fees added together weren't a significant figure but they will all feature on the Council balance sheet next year under the new process
- As a local authority, the exposure from IFRS 16 was more limited for Gravesham where as other Councils will be more impacted due to their usage of their vehicle leases. Those using their vehicles for delivering their services and contracting our service externally will have to go on the balance sheet
- As the policies have been submitted to Grant Thornton, they may raise some queries or wording issues, but there have not been any major issues reported in previous years. However, if they raised any significant problems then they would be brought to the Committees attention

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

51. Audit & Counter Fraud Quality Assurance & Improvement Program

The Audit & Counter Fraud Shared Service Quality Assurance & Improvement Programme for 2020-21 was presented for approval to the Committee.

The Audit & Counter Fraud Team Leader advised that the QAIP had been reviewed and was considered to continue to meet the necessary requirements and will therefore continue to be in place for the coming financial year, subject to the proposed amendments from 2.2.1 to 2.2.4 of the report.

Following questions and comments from Members, the Audit & Counter Fraud Team Leader advised that:

- The programme that has been put together fulfils the Committees role in reviewing the performance of the Audit & Counter Fraud Shared Service; the changes that were proposed had to be formally approved by the Committee. Additionally, the work of the shared service is subject to an external review every five years. The previous external assessment, in 2018, assessed the council's compliance with the Public Sector Internal Audit Standards by reviewing the work carried out by the team and concluded that the shared service was 98% compliant with the Standards. Prior to this, the shared service had also carried out its own internal assessment, with an improvement programme put in place. No significant changes have been made since these assessments were undertaken.
- PM9 relates to the percentage of work the team can charge to implementation of the Audit & Counter Fraud Plan. The description was amended from 'productive' to 'chargeable' as the former implied that the remaining time was unproductive, whereas this is actually used for tasks which support delivery of the Plan, such as one to ones, team meetings and time recording etc.
- PM13 tracked the percentage of audits which are completed within the allocated day budget but was removed as it did not take into account how far the audit had gone over the allocated day budget or that audits go over the day budget for legitimate reasons. Members will still be able to see the budgeted days and the number of days used for each specific review as part of the team's quarterly update and annual reports to the Committee and this will continue to be monitored internally, however PM13 will not be reported going forward.

Resolved that Members approved the QAIP presented at Appendix 3 for use in 2020-21.

52. Audit & Counter Fraud Strategy 2020-24

The Audit & Counter Fraud Shared Service Strategy for 2020-2024 was presented to the Committee for approval.

The Audit & Counter Fraud Team Leader stated that the document attached at appendix two was the updated Audit & Counter Fraud Strategy designed for the next four years up until 2024, but the three main objectives remained the same. The team will continue to build on the success achieved by the shared service since 01 March 2016.

The Committee asked for clarification on any changes to the Strategy compared to the previous one.

The Audit & Counter Team Leader advised that there had been a minor amendment to Objective Three – Positive Impact; the below wording was added to the Objective

- We will continue to build on the success of the shared working arrangements and explore all opportunities for further development, including the potential to expand the partnership and increase cost savings and resilience or sell services.

Resolved that Members approved the Audit & Counter Fraud Shared Service Strategy 2020-24 presented at Appendix 2.

53. Audit & Counter Fraud Plan 2020-21

The Audit & Counter Fraud Plan 2020-21 for Gravesham, attached at appendix two to the report, was presented to the Committee for approval.

The Audit & Counter Fraud Team Leader stated that the Audit & Counter Fraud Plan has been prepared based on the cyclical programme of core financial and governance activities listed on page 8 of the Plan and a risk assessment to ensure that the team's resources are directed to the highest area of risk. Senior management have also been consulted on the draft plan to corroborate this risk assessment.

The Audit & Counter Fraud Team Leader fielded questions from the Committee, explaining that:

- The Committee will receive quarterly update reports on the Plan throughout the financial year and reviews will be conducted to ensure that the shared service can deliver the Plan effectively ahead of these. If any issues were detected with the Plan and amendments were necessary then they would be presented to the Committee as part of the next update report, asking for Members approval.
- Following on from the previous meeting of the committee and the item on the Strategic Risk Register, a review was undertaken of the Lower Thames Crossing as a strategic risk to the organisation with the Planning Department and the risk was assessed as below the threshold. However, it has been recognised as a risk under risk two of the proposed Strategic Risk Register, which related to national priorities and legislative change, as a significant infrastructure project that the Council will be obliged to react to over the course of next year.
- Within the team are the following staff:
 - James Larkin as the Head of Audit & Counter Fraud Shared Service
 - Helen Thaqi, Nikki Ashby and Mark Cayzer as Audit & Counter Fraud Team leaders
 - Eight Audit & Counter Fraud Officers
 - An Intelligence Analyst and an Assistant
- With regard to the total number of days in the Plan, highlighted in the summary table on page 6, this time is made up from the Assistant, the Intelligence Analyst, the eight A&CF Officers and a portion of the Team Leaders time. The total of this time is then

split between the two local authorities as per the Shared Service Agreement, at 64% for Medway and 36% for Gravesham.

Resolved that Members approved the Audit & Counter Fraud Plan 2020-21 for Gravesham presented at Appendix 2.

54. 2019-20 Audit Scope Letter (Please note that Appendix 2 is restricted and will only be available in the private document pack)

The Committee was provided with a copy of a letter received from the Council's External Auditor, Grant Thornton UK LLP, setting out proposed additional fees relating to the 2019/20 audit of the Council's financial statements.

The Assistant Director (Corporate Services) summarised the background of the letter and informed Members of the Councils decision in 2016 to unanimously accept the invitation to opt into the appointing persons arrangements made by PSAA for the appointment of external auditors.

The Assistant Director (Corporate Services) advised that the additional fee of £7,500 in addition to the scale fee of £41,036 was set out as being necessary for Grant Thornton to meet their requirements for the Councils 2019/20 accounts.

The Assistant Director (Corporate Services) outlined key points from the report to the Committee regarding the below four key areas that Grant Thornton explained were directly related to the need for the additional fee:

- Increased challenge and depth of work – raising the quality bar
- Property, plant and equipment (PPE or 'Fixed Assets')
- Pensions (IAS 19)
- Complex accounting issues and new accounting standards

The Letter set out the intention to approach the PSAA for the additional fee; the Section 151 Officer attended a meeting of the Kent Finance Officer Group and it has been recognised that the current level of audit fee was not sustainable to deliver a quality and compliant audit service.. There is a government review currently being undertaken to consider the scope and role of external audit, the Redmond review; the initial findings from the review are expected later on this month with formal reporting currently scheduled for June..

The Assistant Director (Corporate Services) fielded questions from Members and explained that:

- The Council is registered for VAT and is able to claim VAT back
- The fee was discussed with the Director (Corporate Services) and he felt that it was an acceptable charge. The consultation from the PSAA on fees for 2020/21 is underway and the Council will be submitting a response to that through the District Councils Network
- Grant Thornton have always reserved the right to increase their prices most likely in preparation of cases where Councils haven't prepared sufficient working papers to support their Statement of Accounts or they haven't complied with the Code of Practice creating more work for the external auditors

- Gravesham have a very good track record with responding to audit enquiries and producing quality working papers to support the Statement of Accounts which is supported by the outcomes from the Audit Letters. There is nothing to suggest that the outcome of the Audit Letter in July 2020 will be any different
- The external audit fees have significantly reduced since they peaked in the mid 2000's at £125K. Before that the Council used to be charged by the Audit Commission who undertook Value for Money and CPA assessments ranking the Council under Performance Measures 1-4. Over time the scope of audit has reduced, and as the scope decreased so did the fee

The Chair echoed the Assistant Director (Corporate Services) comments regarding external auditing and advised that they both attended a PSAA conference where her comments were reflected by other Finance Officers from London.

Before the end of the meeting, the Committee congratulated the Assistant Director (Corporate Services) on her recent promotion to the post of Director (Corporate Services).

Close of meeting

The meeting ended at 8:30pm.