

## Finance & Audit Committee

Tuesday, 07 March 2023

7:30pm

### Present:

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

Cllrs: Dakota Dibben  
Gary Harding  
Nirmal Khabra  
Lyn Milner  
Emma Morley  
Frank Wardle

|                |   |
|----------------|---|
| Lisa Nyon      | Assistant Director (Corporate Services)       |
| James Larkin   | Head of Audit & Counter Fraud Shared Services |
| Andrew Barnett | Principal Accountant (General Fund)           |
| Paul Dossett   | External Auditor, Grant Thornton              |
| Ben Clarke     | Committee Services Officer (Minutes)          |

### 41. Apologies for absence

Apology for absence were received from Cllr Derek Ashenden and Cllr Samir Jassal. Cllr Frank Wardle substituted.

### 42. Minutes

The minutes of the meeting on Monday, 13 February 2023 were signed by the Chair.

### 43. Declarations of Interest

There were no declarations of interest.

### 44. External Audit Update

The Committee were provided with a report from Grant Thornton that advised them of the progress of the external audit for 2019/20. The committee were informed that Gravesham's previous auditor, Paul Grady, had left Grant Thornton and Paul Dosset introduced himself to the Committee as the new external auditor that would manage Gravesham's audits from now onwards.

Members were informed that the completion of the 2019/20 audit had been delayed, mainly due to two remaining areas of technical audit challenge:

- Accounting for HRA revaluations.
- The accounting treatment for the St Georges Shopping Centre.

The challenge regarding the HRA revaluation had now been resolved and was now subject to review once revised 2019/20 statements had been finalised.

The challenges around the St George's Centre transaction are still ongoing. Paul Dossset from Grant Thornton advised that the auditors were due to meet with Council Officers last Friday, together with their appointed accounting expert, but unfortunately this meeting is in the process of being rescheduled due to the accounting expert being unwell.

Grant Thornton also have a responsibility to ensure the Council had made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, known as the Value for Money Conclusion (VFM), which sits alongside the statement of accounts audit. Due to the delays with the financial statements audit, work on the VFM conclusion had been paused but work had now resumed on this and was now drawing to a close. A report detailing the findings and conclusions, would be brought to the Finance & Audit Committee following the elections in May 2023.

The external auditor informed members of the change in the code which considered infrastructure assets. The value of Gravesham's infrastructure assets at 31/03/2020 was £1.2 million which was below the materiality threshold; therefore, Grant Thornton did not expect any significant challenge in that area. The statutory instrument would be in effect until the 2024/25 financial year. Following which, the CIPFA Code of Practice on Local Authority Accounting was expected to introduce longer term financial reporting requirements.

Paul Dosssett from Grant Thornton fielded a variety of questions from Members and explained that:

- The audit plan was the initial document that mapped out how Grant Thornton would deliver the audit, following which the audit plan would be executed and then the findings reported to the Committee in the annual audit findings report.
- In terms of timescales for concluding the 2019/20 audit and delivering the audit findings report, this was dependent on the Council's progress and liaising with the auditors regarding the St George's Centre, and the revised accounting of that transaction. The External Auditors needed to meet with Council officers to further understand the proposals, agree a deadline for the Council providing the revised accounts and then an audit findings timeframe could be determined. However due to some elements of the 2019/20 audit already being completed, a full audit of 2019/20 accounts was not required, and it was hoped the process could be completed and signed off within the 2023 calendar year.
- The audit fee was not set by Grant Thornton; the Public Sector Audit Appointments, PSAA, set the fee for external audit nationally and they awarded contracts for a five-year period beginning on 01 April 2018. The 2019/20 audit was the second year of that contract. Due to changes since then in auditing standards and additional requirements put on external auditing, the audit fee would increase once the accounts had been signed off. However, due to the delay in signing off the 2019/20 accounts and the need to solve various issues specific to Gravesham (revised HRA asset accounting and the St Georges' Centre transaction) the total increase to the audit fee was currently unknown.
- The procedure for issuing a fee following completion of the audit was for Grant Thornton to determine a fee which would then be discussed with Gravesham's

Section 151 officer and the Finance & Audit Committee. Following discussion of the fee, it would then be submitted to the PSAA for determination who would make an independent ruling. The PSAA decision was separate of the Council's and Grant Thornton's fee determination, but it was taken into consideration. Due to the nature and complexity of the 2019/20 audit, the External Auditor, Grant Thornton expected the PSAA to conduct a file review, and determine what justification there was for the proposed fee and the contractual arrangements in place.

- With regard to the St George's transaction, Grant Thornton and the Council had held numerous meetings and the governance arrangements around the St George's transaction would drive some of the value for money conclusions. The main thing for the VFM conclusion is the requirement for the external auditors to review the Council's governance arrangements for use of resources, financial stability, and the Council's ability to achieve value for money. Factors such as the work of internal audit, counter fraud and the Corporate Risk Register all formed part of the Value for Money Conclusion. Gravesham's VFM conclusion was expected to be submitted to the Committee following the election in May 2023.
- 2019/20 was the last year of the previous VFM conclusion code of practice which used to require external auditors to give an unqualified opinion or qualified opinion on a local authority's VFM. The code was revised in 2021 and required external auditors to pass a judgment which didn't have a conclusion as such, but instead provided a commentary of key VFM areas the commentary would include, if necessary, key recommendations which had to be met or improvement recommendations where certain things could be improved upon.
- The External Auditor, explained that in terms of accounting treatment, if accounting standards stayed the same then previous transactions would not be revisited in subsequent audits. For example, once the St Georges Centre transaction was completed, the Council would be in a strong position with 2019/20 as a solid base, with the transaction only being revisited if the accounting standards were revised.
- Grant Thornton worked with many local authorities and a common theme identified was that sometimes Officers did not always follow through on advice given, or ask for detailed advice on separate agreements in the right manner (such as accounting and legal advice which are separate). Business advice could be sought, however local government accounting advice was completely separate, and different in nature.
- To avoid similar situations in the future, when considering entering into complex transactions, Councils should undertake due diligence in terms business advice, financial viability studies and legal advice, complemented with specialist local government accounting advice. This should all be completed in advance of entering into the transaction so that any potential challenges could be considered at the outset, as well as dialogue with external auditors regarding accounting treatment undertaken, to avoid future auditing issues.
- Due to the nature of these transactions, such as the St George's Centre, it was essential that advisors with no interests in the outcome of the project were engaged, and that full impartial local government accounting advice was received, thus allowing the correct accounting treatment to be secured. It was also suggested that

advisors to the Council on specific projects could speak to Members in advance of projects going ahead, so that wider scrutiny could be undertaken.

The Assistant Director (Corporate Services) confirmed that a new date would be arranged with the external auditors to discuss the revised accounting treatment for the St Georges' Centre Transaction.

The Chair raised concern over the reference in the report that explained that the original advice given to the Council by Grant Thornton was now being challenged by Grant Thornton; the Chair sought clarification as to why Grant Thornton gave the Council advice in 2019 which they had now raised a number of challenges against.

In response to the Chair's concern, Paul Dossett explained that auditors and audit bodies had lengthy discussions during an audit, but advice was a different aspect. Grant Thornton were not able to offer advice in the way that firms such as Worth Technical Accounting Solutions Ltd could; as external auditors had to be independent from the Council's accounting process. Paul Dossett advised that it was his understanding that the previous Grant Thornton team auditing the 2019/20 accounts had communications with the Council about the St Georges Centre transaction, but had offered no formal written advice. During the audit process for 2018/19 the external auditors used all available information at the time of the review to conclude that the accounting statements provided a true and fair view. External auditors reviewed the accounting statements in their totality not specifically endorsing a specific treatment of a transaction.

The Committee stated their grievances with the way the report was written as the report was felt to be disingenuous due to there being no reference of Grant Thornton being involved in the discussions for the original St George's Centre transaction. This public report therefore seemingly absolved Grant Thornton of any involvement in the original due diligence processes that had been undertaken by the authority before entering into the transaction in 2018, despite them being engaged in the discussions at the time.

The Chair requested that the External Auditor, Grant Thornton attend future Finance & Audit Committee meetings so that the external audit could be discussed and scrutinized; the External Auditor, Grant Thornton agreed to attend every meeting where his presence was requested unless he was unable to due to meeting clashes.

#### **45. Review of Accounting Policies 2022- 23**

The Committees endorsement was sought of the Accounting Policies to be used in formulating the Financial Statements for the authority for the financial year 2022-23.

The Principal Accountant (General Fund) informed Members that as at the time of writing, there were no major changes to The Code that had been identified that would influence the council's accounting policies for 2022-23. The accounting policies would therefore broadly remain in line with those used to prepare the 2021-22 Statement of Accounts, although opportunity has been taken to review the wording of accounting policies and update where necessary to provide greater clarification.

The Principal Accountant (General Fund) added that as of writing, the audit of the 2019/20 Statement of Accounts remains outstanding due to technical accounting challenges regarding the St George's Shopping Centre. This meant that the Statements of Accounts for 2020/21 and 2022/22 were also outstanding as there were no agreed / audited opening

balances upon which to commence those processes. Thus, no auditor amendments to the accounting policies as a result of those processes were yet to be factored into the current version.

The Principal Accountant (General Fund) had shared the documents with the external auditors and requested comments. Members were assured that any fundamental changes arising from the audit would be incorporated into the document and brought back to the Committee for review.

In response to the Chairs question around governance, the Principal Accountant (General Fund) advised that the Councils Local Authority Trading Company (LATCo) had governance arrangements in place for operations and auditing which are separate to the Council's own arrangements. The formatting for the Council's Statement of Accounts, incorporating the LATCO as part of the overall Group Accounts would keep the format used as much as possible for the Council's own statements.

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

#### **46. Corporate Risk**

The Committee was provided with the outcome of the annual risk identification and analysis exercise, the purpose of which was to assist in the development of Gravesham Borough Council's Corporate Risk Register for 2023-2024.

The Assistant Director (Corporate Services) directed Members to appendix one which held the Risk Management Strategy. The Strategy was reviewed annually and there were no updates or amendments made to the Risk Management Strategy 2023-24.

The Assistant Director (Corporate Services) directed Members to paragraph 3.2 of the report which held a summary of the Council's seven identified risks; one additional risk for 2023-24 'Implementation of the Elections Act', had been incorporated into the Corporate Risk Register. Further information on the seven identified risks could be found in the document attached at appendix two to the report.

Following a Members question, the Assistant Director (Corporate Services) explained that the seven risks on the register were the only ones identified during the process for 2023-24. The draft corporate risk register had been presented to Management Team for comment prior to the Finance and Audit Committee.

**Resolved** that Members approved the draft Corporate Risk Register, prior to it being presented at Cabinet on Monday, 20 March for approval.

#### **47. CIPFA FM Code**

The Committee was provided with an overview of the Chartered Institute of Public Finance Accountants (CIPFA) Financial Management Code 2019, along with an annual self-assessment that was undertaken in January 2023 to identify compliance and areas for further consideration.

Appendix one set out the annual self-assessment against the financial management code, undertaken by the Finance team and a column had been included which detailed how

compliant the council was against the seventeen requirements of the code. The assessment included any areas that may need improvement to ensure full compliance. However, the self-assessment conducted during January 2023 concluded that there were no significant improvements to be made.

The Assistant Director (Corporate Services) explained that the code and the Councils approach to the Code had been discussed with the Section 151 Officer. Additionally, the report had been through the Councils Management Team and had received their comments and endorsement.

Members noted the report.

#### **48. Internal Audit & Counter Fraud Quality Assurance & Improvement**

The Committees approval was sought for the Internal Audit Quality Assurance & Improvement Programme (QAIP) for 2023-24.

The Head of Internal Audit & Counter Fraud Shared Services explained that there had been some changes to the Key performance indicators for the coming year, which were meant to be shown as tracked changes on the document at appendix two however there were issues with the committee software which erased the changes. However, a detailed breakdown of the changes could be found at section 2.3 of the report.

**Resolved** that Members approved the QAIP presented at Appendix 3 for use in 2023-24.

#### **49. Internal Audit Plan 2023-24 (Q1-Q2)**

The Committees approval was sought for Gravesham's Internal Audit Plan (Q1-Q2) 2023-24.

The Head of Internal Audit & Counter Fraud Shared Services explained that he had trialed a new approach to the audit plan for 2022-23 however due to unexpected vacancies within the team he had been unable to demonstrate if the new approach had been effective so the new approach would be trialed again this year.

The Head of Internal Audit & Counter Fraud Shared Services explained that although a plan was drafted for the full year based on resources predicted to be available, given that the risk assessment was completed in January, there was a high probability that changes occurring in the year could result in changes to the risk landscape that needed to be addressed. As such the plan being presented for approval was only for the first six months of the financial year.

In July, the resource budget and risk assessment detailed in the report would be reviewed to take account of any changes and updated accordingly. That would then inform the plan for the remainder of the year, which would be presented to the Finance & Audit Committee for approval in September 2023, along with the first progress update.

**Resolved** that Members approved the Internal Audit Plan (Q1-Q2) 2023-24 for Gravesham presented at Appendix Two.

#### **50. Counter Fraud Plan 2023-24**

The Committees approval was sought for the Counter Fraud Plan for 2023-24.

The plan for 2023-24 had been designed around four keys' areas of activity; the report outlined the work to be undertaken in the below areas:

- Fraud Awareness and Prevention
- Pro-Active Counter Fraud Activity
- Responsive Investigation Activity
- Other Counter Fraud Activity

The Head of Internal Audit & Counter Fraud Shared Services advised Members that the performance information on page 147 had been expanded slightly for 2023-24 to include details of the number of civil actions and criminal sanctions being applied as a consequence of investigative activity to provide Members a broader picture of the impact, in addition to the financial savings.

In response to a Members question concerning training, the Head of Internal Audit & Counter Fraud Shared Services assured Members that a fraud awareness training session had been scheduled as part of the Member Induction Plan 2023. Further sessions to backdate any Members that may be unable to attend that session could be held later on in the year.

**Resolved** that Members approved the Counter Fraud Plan 2023-24 presented at Appendix Two.

## **51. Any Other Business**

The Chair thanked Members and officers for supporting him during his Chairmanship of the Committee and for their very hard work over the last four years ensuring careful scrutiny of the Councils financial arrangements.

### **Close of meeting**

The meeting ended at 20:16pm.