

# Finance & Audit Committee

Tuesday, 18 July 2023

7:30pm

## Present:

Cllr Gavin Larkins (Chair)  
Cllr Ektaveen Thandi (Vice-Chair)

Cllrs: Lee Croxton  
Dakota Dibben  
Aaron Elliott  
Jo Hart  
Alan Metcalf  
Karina O'Malley  
Ben Sizer

Lisa Nyon	Assistant Director (Corporate Services)
James Larkin	Head of Audit & Counter Fraud Shared Services
Andrew Barnett	Principal Accountant (General Fund)
Ben Clarke	Committee Services Officer (Minutes)

## 1. Apologies for absence

Apologies for absence were received from Cllr Derek Ashenden and Cllr Samir Jassal (Cllr Ben Sizer and Cllr Alan Metcalf substituting).

## 2. To sign the minutes of the previous meeting.

The minutes of Finance & Audit Committee on Tuesday, 07 March 2023 were signed by the Chair.

## 3. Declarations of Interest

There were no declarations of interest

## 4. General Fund Provisional Outturn Report

The Committee were presented with:

- The 2022/23 provisional General Fund Outturn Report, including movements in the General Fund working balances and earmarked reserves
- The 2022/23 provisional General Fund Capital Outturn

The Principal Accountant (General Fund) drew Members attention to page 12 of the report which held an Executive Summary of the information in the report pertaining to the:

- General Fund – Revenue

- General Fund – Capital

Members noted that the provisional outturn position for the year was a net deficit of £673K which represented an improvement on earlier projections and the level of Working Balances at year-end was £10.25m, which constituted minimum working balances of £2.0m, the General Fund reserve of £3.25m and usable Working Balances of £5m.

The Principal Accountant (General Fund) took Members through the report and updated them on other key areas of financial performance that may impact on the Council's Medium Term Financial Strategy, Medium Term Financial Plan (MTFP), or Financial Statements.

The Principal Accountant (General Fund), the Principal Accountant (HRA & Exchequer) and the Assistant Director (Corporate Services) fielded questions from Members and explained that:

- 3.4.9 – The adverse variance for St Georges Centre was largely due to vacant units in the Centre; a managing agent for the St Georges Centre collected rental income from each unit and passed it over to the Council on a quarterly basis but vacant units resulted in a lack of rental income being passed to the Council, as well as the Council having to pay each vacant units' share of the service charges and business rates that would otherwise be paid by the occupying tenant
- Tenancies were considered on an individual basis; for vacant units, short periods of exemptions from business rates may apply, although once expired, these charges would then fall back on the Council.
- 3.5.5 – The adverse variance described for St Georges Centre interest charges was due to a change in accounting treatment of the transaction, following auditor challenge in previous years.
- The £725k favourable variance reported at 3.10 referred to the amount of interest the Council earned in investments; the cash flow had been well-managed over the past year, and the favourable variance had largely arisen from money received from high interest deals that paid well over the long term
- Asset optimisation was part of the Medium Term Financial Plan (MTFP); the Property Evaluation Team reviewed the Council assets portfolio to see if each asset still delivered best value, how they can be best used, and if the Council should retain them. Any proposed disposal of a Council asset would be taken through Cabinet for a final decision
- The Asset Register is reviewed as part of the external audit process and by Internal Audit if an audit covered this area.

The Committee noted the report.

## **5. Housing Revenue Account Provisional Outturn Report**

The Committee were presented with:

- The 2022/23 provisional Housing Revenue Account Outturn, including movements in the Housing Revenue Account working balances and General Reserve
- The 2022/23 provisional Housing Revenue Account Capital Outturn

The Principal Accountant (Housing & Exchequer) directed Members to page 34 of the report which held an Executive Summary of the information in the report pertaining to the:

- HRA (Revenue)
- Housing Capital

Members noted that at the end of the financial year, income and expenditure for the year was balanced with a contribution of £1.025m to reserves to fund future revenue and/or capital expenditure. The figure a significant movement from the forecasted outturn reported in previous monitoring reports and whilst it was a positive year end position, it was important to understand that whilst Housing Officers worked hard to prioritise spend, where possible, it was largely driven by finance year end accounting transactions.

Members were taken further through the report and updated on other key areas of financial performance that may impact on the Councils HRA Business Plan.

The Principal Accountant (Housing & Exchequer) fielded questions from Members and explained that:

- In the last financial year (2022-23) thirty-nine houses were sold under right to buy which was the highest amount sold in one financial year and reflected the year on year increase. To date in this financial year (2023-24), only two houses had been sold, most likely due to current economy and cost of living pressures
- The money received from Right to Buy receipts was paid as an annual pooling return to the Government; in previous years a proportion of the money was repaid to Government with the remainder being kept by the Council as one-for-one receipts to reinvest into the affordable housing programme. The Council also retained a small proportion to cover admin costs. For 2022-23 and 2023-24,; the Council was able to retain 100% of the funds and reinvest it into local new build housing schemes in order to provide more homes for local residents
- The percentage cost of a new home that local authorities could fund using Right to Buy receipts had increased from 30% to 40% with the remaining 60% being funded by the Council
- 4.9 – A favourable variance of £9.8 million had been reported for the New Build Scheme but it wasn't a true saving as schemes will be delivered in future years;

The Principal Accountant (Housing & Exchequer) agreed to circulate an email with further information regarding the £52k favourable variance from rear accessways.

In response to a Members question, concerning the future of the HRA the Principal Accountant (Housing & Exchequer) explained that the HRA still faced significant challenges in the future. The Principal Accountant (Housing & Exchequer) attended a Housing Finance webinar earlier today and it was reported new Housing Standards were going to be implemented which included areas around the building safety act and net zero carbon targets, minimum level EPC ratings etc but the costs to the Council for implementing those new standards was currently unknown. With regards to challenges the HRA faced this financial year, Members were advised that key challenges were repair and maintenance costs and the difficulty in recruiting staff to Housing. The Council were currently in a position where a small amount of resources were able to fund the HRA overspend but difficult decisions would need to be made in the near future.

The Assistant Director (Corporate Services) agreed that in the short term the HRA's finances were stable but in the long term the impact of future changes to the Council's finances was unknown; the HRA was assisted by the revised Depreciation Policy last year which resulted in £1.7 million favourable variance but that was a one off and would not be repeated in future years.

The Assistant Director (Corporate Services) further added that it was unknown if interest rates, and the costs of materials would decrease in the future, but the team were managing the HRA finances as best as they could with the information available to them.

In response to a Members question concerning temporary accommodation, the Principal Accountant (General Fund) advised that the budget for temporary accommodation was £1.5 million. £300K of that budget was funded through the Homelessness Prevention Grant, a portion of it was funded through housing benefit income and the bulk of it was funded through the Councils own reserves.

The Committee noted the report.

## **6. Annual Treasury Management Review 2022/23**

The Committee received a report on treasury management activity during 2022-23 in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA's) revised code on Treasury Management.

In accordance with reporting requirements for each financial year, Full Council received the following reports for 2022-23:

- an annual treasury strategy in advance of the year (Council 22 February 2022)
- a mid-year (minimum) treasury update report (Council 6 December 2022)
- an annual review following the end of the year describing the activity compared to the strategy (the report to be received by Council on 17 October 2023 through consideration of the Minutes of this meeting of the Finance & Audit Committee)

The Principal Account (HRA & Exchequer) advised that typically the report was only for noting but due to the delay with Grant Thornton and the final account process it was necessary for delegated authority to be requested from the Committee.

The Principal Accountant (Housing & Exchequer) guided Members through each section of the report and outlined key information that pertained to treasury management activity during 2022/23.

The Principal Accountant (Housing & Exchequer) fielded questions from Members and explained that:

- It was difficult to compare the Councils HRA position to other local authorities as there were a number of variables in play such as different capital programmes and some local authorities do not have a HRA
- The table at page 63 identified the incremental impact of capital investment decisions and the increase in Council Tax for band D properties and rented accommodation per annum if extra borrowing was required

- With regard to Property Asset Funds, the account standard 'IFRS 9' required any losses of capital gains to be taken through to revenue which caused a significant issue for local authorities when they wanted to cash in on investments. Until 2025, there was an override in place which stated that capital gains or losses did not need to be taken through to revenue but that only became relevant if the Council decided to redeem any investments made

**Resolved** that Members:

1. Noted the contents of the report
2. Delegated authority to the Director (Corporate Services), in consultation with the Chair of the Finance and Audit Committee, to amend the figures in the report, as necessary following successful completion of the final accounts process

## **7. Annual Governance Statement 2022/23**

The Committees approval was sought for the for Councils Annual Governance Statement for the 2022-23 financial year.

The Assistant Director (Corporate Services) advised that Members were asked to note the findings of the review of the council's governance arrangements for 2022-23. The review of the council's governance framework and system of internal control for 2022-23 was conducted by the Strategic Policy Manager, in full consultation with the council's AGS Assurance Group. The review was undertaken in accordance with the principles adopted by the council's Code of Corporate Governance.

The AGS for 2022-23 was prepared against the findings of the annual review of governance. Whilst no significant control issues were identified, the review did present some opportunities to further develop and strengthen the council's governance framework and system of internal control. The plan for activity in the coming year is presented in section 14 of the AGS.

The Assistant Director (Corporate Services) advised that she would ask the Chair to sign off the AGS once it had been considered and approved by the Committee.

In response to the Chairs question concerning auditor sign off of the 2019-20 and 2020-21 financial statements, the Assistant Director (Corporate Services) advised that there was a backlog of unpublished audit opinions in local government. As of January 2023, there were around 600 accounts spanning 3-4 years that were awaiting external auditor sign off. This back log and the challenge regarding the St Georges Centre transaction is contributing to the delay. It is hoped that the 2019-20 accounts would be finalised and brought to the Committee in November 2023.

The Council had agreed a high-level plan with Grant Thornton to conclude the 2019-20 and 2020-21 audits during 2023-24, as well as an 'in principle' plan for conducting the 2021-22 and 2022-23 audits concurrently during 2024-25.

**Resolved** that Members:

1. Noted the findings of the review of the council's governance arrangements for 2022-23

2. Approved and supported the Annual Governance Statement for the 2022-23 financial year.

## **8. Internal Audit - External Quality Assessment**

The Committee received a report that informed them of the outcomes of the External Quality Assessment conducted by Business Risk Solutions in January/February 2023.

The Head of Audit & Counter Fraud Shared Services advised that since 01 March 2016, the Council's internal audit activity had been delivered by the Internal Audit & Counter Fraud Shared Service with Gravesham Borough Council and the last EQA was conducted during 2017-18.

Due to the Public Sector Internal Audit Standards (PSIAS) requiring that at least once every five years, providers of internal audit services undergo an External Quality Assessment (EQA), the Internal Audit team was subject to an external quality assessment in February 2023.

Gravesham's Internal Audit service received a green opinion which stated that '*The Internal Audit Shared Service is delivering to a standard that generally conforms with the Public Sector Internal Audit Standards*'. The full report of the assessor's findings could be found at Appendix Two of the report.

**Resolved** that Members endorsed:

1. The work already undertaken in relation to recommendation R2 and the proposed actions to be taken by the Internal Audit & Counter Fraud team in relation to recommendations R1, R3, R7, R9 and R11
2. The rejection of recommendations R4, R5, R6, R8 and R10.

## **9. Internal Audit & Counter Fraud Survey results**

The Committee were informed of the results of the surveys aimed at identifying the level of satisfaction with the services provided by the Internal Audit & Counter Fraud Teams.

The Head of Internal Audit & Counter Fraud advised that the surveys were sent out to gauge satisfaction of the services, and they should be undertaken annually

The Head of Internal Audit & Counter Fraud advised that the overall level of responses was down from last year which may have been due to the time of year the survey was released as many officers would have had end of year deadlines to meet; it was noted that the response rate was average for corporate surveys:

- Internal Audit – 11 responses received compared to 14 in 2022
- Counter Fraud – 37 responses received compared to 51 in 2022

The Head of Internal Audit & Counter Fraud asked Members to look at appendix two and outlined key points from the Internal Audit survey results.

The Head of Internal Audit & Counter Fraud asked Members to look at appendix three and outlined key points from the Counter Fraud survey results.

The Head of Internal Audit & Counter Fraud fielded questions from Members and explained that:

- With regard to next steps, a key issue the surveys identified was officers' fraud awareness; the team delivered fraud awareness training as part of the Counter Fraud Plan and a lot of tailored sessions had been delivered to various teams across the Council. The team was also working on creating a webinar session which could be recorded and sent round to all staff as well as a general training session, similar to the Member training session, which gave an overview of fraud to officers
- The surveys did not create an action plan, but the responses received all factored into the Annual Plans
- Receiving feedback on ongoing investigations was always a contentious issue with officers as many staff wanted feedback on cases that had been referred to Counter Fraud, however in some cases the referral was personal and GDPR prevented much information from being divulged. Another factor was that the team had no control over how long a case took to complete; fraud was a complex area and a case could take months to years to be settled, so this was sometimes simply missed due to the passing of time.
- The volume of referrals to Counter Fraud hadn't gone up but the quality and level of details submitted with each referral had improved.

Members noted the results of the Internal Audit & Counter Fraud satisfaction surveys.

## **10. Internal Audit Annual Report**

The Committee were provided with a report that informed them of the Internal Audit work completed during 2022-23 and were presented with the opinion of the Head of Internal Audit & Counter Fraud Shared Service, as Chief Audit Executive, on the council's internal control environment.

The Head of Internal Audit & Counter Fraud advised that the Annual Report reproduced the findings detailed in the three update reports taken to previous F&A Committee meetings along with the results of work finalised since the last update, which provided Members with a summary of all work delivered by the team in the year.

The Head of Internal Audit & Counter Fraud guided Members through each section of the report and outlined key aspects of the Internal Audit Teams work over the last year.

Members were directed to page 178 of the report which outlined Gravesham's overall audit opinion by the Chief Audit Executive:

*'It is my opinion that during the year ended 31 March 2023, Gravesham Borough Council's framework of governance, risk management, and system of internal control, were sufficient and effective, and contributed to the proper, economic, efficient, and effective use of resources in achieving the council's objectives.'*

The Committee expressed their thanks to Head of Internal Audit & Counter Fraud for the comprehensive report and asked that their thanks be passed to the Internal Audit team for their excellent work.

**Resolved** that Members:

1. Endorsed the work undertaken by the Internal Audit & Counter Fraud Shared Service for Gravesham during 2022-23 in providing an effective service to the council
2. Endorsed the opinion on the council's internal control environment provided by the Head of Internal Audit & Counter Fraud Shared Service

**11. Counter Fraud Annual Report**

The Committee were provided with a report that informed them of the results of the counter fraud work completed during 2022-23.

The Head of Internal Audit & Counter Fraud advised that the Annual Report reproduced the findings detailed in the three update reports taken to previous F&A Committee meetings along with the results of work finalised since the last update, which provided Members with a summary of all work delivered by the team in the year.

The Head of Internal Audit & Counter Fraud guided Members through each section of the report and outlined key aspects of the Counter Fraud Teams work over the last year.

In response to a Members question, the Head of Internal Audit & Counter Fraud advised that completing the Fraud Risk Register was now top of the teams priority list and it had been agreed with the Director (Corporate Services) that it would be brought to the Committee in February 2023 along with the Risk Management Strategy.

The Committee expressed their thanks to Head of Internal Audit & Counter Fraud for the comprehensive report and asked that their thanks be passed to the Counter Fraud team for their excellent work.

**12. Annual Report of the Audit Committee Chair**

The Committee were provided with a report that gave Members information on the work of the Finance and Audit Committee during the year 2022-23.

The Chair advised that he provided the foreword to the report which reflected his and his predecessors thanks to all the officers who had served the Committee so efficiently in the previous administration.

The Chair also thanked the Members for their participation in the Finance & Audit Committee in 2022-23.

**Resolved** that Members:

1. Endorsed the Annual Report presented at Appendix 2
2. Agreed that the Annual Report be presented to the next Full Council meeting.



**Close of meeting**

The meeting ended at 21:00pm.