Finance & Audit Committee

Wednesday, 09 November 2022 **7:30pm**

Present:

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

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

Please note:	Cllr John Burden and Cllr Jordan Meade were also in attendance.
Sarah Parfitt	Director (Corporate Services)
Lisa Nyon	Assistant Director (Corporate Services)
James Larkin	Head of Internal Audit & Counter Fraud Shared Service
Alex Jarvis	Principal Accountant (Housing & Exchequer)
Andrew Barnett	Principal Accountant (General Fund)
Paul Dosset	External Auditor, Grant Thornton
Tom Foster	External Auditor, Grant Thornton (Value for Money)
Ben Clarke	Committee Services Officer (Minutes)

24. Apologies for absence

An apology for absence was received from Cllr Samir Jassal (Cllr Alan Metcalf substituted).

25. Minutes

The minutes of the meeting on Monday, 26 September 2022 were signed by the Chair.

26. Declarations of Interest

Cllr John Burden declared a non-pecuniary interest as he was a member on the Kent Pension Fund Committee.

Cllr Jordan Meade declared an interest as he was on the LGA Peoples and Places Board as an AI and Artificial Intelligence Champion.

27. General Fund Budget Monitoring Report Q2

The Committee was provided with information on actual performance against the approved Revenue and Capital budgets for 2023/24; this included projected variances in all directorates agreed or identified through budgetary control activity.

The Principal Accountant (General Fund) directed Members to page 10 which held an executive summary of the report; Members noted that for quarter two there was a forecasted overspend of just under £1.1 million; significant projected movements against the budget during Quarter Two were detailed in the report.

The Principal Accountant (General Fund) guided Members through the report and highlighted key points around projected variances, the level of working balances, the capital programme, and the wider unbudgeted risks to the MTFP.

In response to Members questions, the Principal Accountant (General Fund) explained that:

- The £500k adverse projected variance for Leisure Services was due to GCLL invoking a clause in their contact in response to significant increase in energy costs and the council subsequently agreeing to waive the £250k management fee and provide further financial support of £250k. If energy prices fell in the future, then the level of projected support spend could decrease but it all depended on the energy market which was volatile
- With regards to the large adverse variance for the St Georges Centre, when the St transaction deal was struck in 2018, it was initially envisaged that payments to Aviva Investors would be met by rental income from the shopping centre, just resulting in a net neutral budgetary position. Since the relationship between income and expenditure was intrinsically linked, it was determined not to amend the rental projections in the MTFP until work to establish the correct accounting treatment with Aviva had been concluded. However, it had been referencing in various budget monitoring reports etc previously that rental income was challenging and would be updated once the full picture for the Centre was established.
- Now that the accounting arrangements had been worked through, the net rental income was reflected in the MTFP and full body of the report. This area continues to be an area of budgetary pressure, and challenging post the Covid-19 pandemic and in the current Cost of Living crisis, with long-term changing customer behaviour and business delivery models.

The Committee noted the report.

28. HRA Budget Monitoring Report Q2

The Committee was provided with information on actual performance against the approved Revenue and Capital budgets for 2023/24, including known variances agreed or identified through budgetary control activity.

The Principal Accountant (Housing & Exchequer) directed Members to page 31 which held an executive summary of the report; Members noted that at the end of the Quarter Two, income and expenditure for the year remained balanced however there was an anticipated contribution to reserves at the year-end of £274k. The overspend was mainly due to the increased costs of borrowing reflected in the capital finance budget and an adverse variance on repairs and maintenance contractor costs. The overspend figure was an improvement on quarters one’s figure of £722k which was largely down to a reduction in forecasted spend on staff salaries; Housing was finding it difficult to recruit and the vacancies savings helped to mitigate the increased spend in other areas.

The Principal Accountant (Housing & Exchequer) guided Members through the report and highlighted key points around other projected variances, the level of working balances, the housing capital programme, and other pressures the HRA faced especially around significant repair costs.

There was a presentation error in the table at 3.91 of the report; the Principal Accountant (Housing & Exchequer) agreed to circulate an updated table of figures after the meeting.

The Committee noted the report.

29. Treasury Management Mid-year review

The Committee were provided with a mid-year review update report on treasury management activity undertaken during the period April to September 2023; a third report reflecting on the annual treasury performance of the council would be brought to the Committee in June/July 2024.

The Principal Accountant (Housing & Exchequer) advised that treasury activity, capital expenditure and forecasted interest rates as at 30 September 2023 were provided by Link in sections three and four of the report.

The Principal Accountant (Housing & Exchequer) provided Members with an update on the St Georges Centre transaction:

- On 16 October 2023, the Council exited the legal arrangements with Aviva Investors relating to the St Georges Shopping Centre; as the original transaction date fell after the end of the mid-year period, the current position figures detailed within the report included the existing financial arrangement with Aviva Investors with the replacement PWLB loans incorporated into the revised estimate figures, where applicable
- The revised estimates for capital expenditure was just under £53 million; £29 million would be funded from existing resources and there was a borrowing requirement of some £24 million with external borrowing being the majority. The duration of the loan on the borrowing would be decided in consultation with the Section 151 officer
- Five additional loans had been taken on for the replacement of the Aviva transaction;
- The amendments to the transaction deal were signed off by Cabinet on 11 September 2023
- A graphical representation of the Council's Liability Benchmark, post the Aviva transaction was shown at 7.9 of the report

The Principal Accountant (Housing & Exchequer) provided Members with an update on the Councils investment, property funds and multi asset funds:

- Investments held as at 30 September 2023 totalled £50 million which was split between internally and externally managed funds. All investments have been placed in accordance with the limits set out in the Council's TMSS and it was confirmed that no breaches had occurred
- In the 2016/17, £10m was placed in three Externally Managed Property Funds and In 2017/18, a further £10m was placed in three Multi Asset Funds. Capital value had gone up and down over the years, but they returned stable dividends, listed in the report, which had been higher than normal investment strategies

- Capital values peaked in June 2022 as asset prices increased significantly but they had fallen in recent months given current economic uncertainties and funds had become less attractive to investors with better and safer returns available from banks
- Due to the uncertainties, all firms were seeing redeeming requests; several months ago, the Council decided to protect its investment and applied for a redemption request for all funds in the account. By early June 2023, Lothbury had received redemption requests from its investors totalling almost £700m
- As Lothbury Property Trust is a small fund in comparison to others and with the level of redemption request it is unable to continue without significantly restructuring. All redemption requests are currently being held and they commenced with an asset sale plan. At an investor meeting, other fund investors indicated that they did not want the fund restructured as a smaller refocused fund and so, Lothbury were currently exploring the possibility of merging with another fund
- If a solution was not found and the fund had to terminate then there was a target to sell all assets by the end of 2024, but it was ultimately dependent upon market conditions and could take several years to receive the funds and result in capital losses to the Council. However, that eventuality was considered several years ago, and an interest reserve was set up in order to protect Council from future losses
- Senior Council officers met with the managers of the fund on a regular basis

In response to the Chairs question, the Principal Accountant (Housing & Exchequer) explained that the graph at 7.9 showing the Councils liability benchmark was created by reviewing the capital programme, the investments the Council held, the loans held and what the Council thought would happen to the loans as well as general balances.

The Committee noted the report.

30. Corporate Risk Register Mid-year review

The Committee were presented with mid-year progress information in respect of all risks recorded in the 2023-2024 Corporate Risk Register, which could be found at Appendix Two of the report.

The Assistant Director (Corporate Services) advised that the Corporate Risk Register 2023-24, had been approved by Full Council on 11 April 2023. This had recently been reviewed by officers to help ensure that the risks listed reflected the current situation and provided an update regarding mitigating actions. The seven corporate risks identified were presented at section 1.3 of the report. Mitigating actions had been agreed to help manage the risks recorded in the 2023-2024 register, as set out in appendix three.

The development of the council's Corporate Risk Register for 2024-2025 would commence in December 2023 and so far officers had identified the risk below for consideration:

- STG Building Control Partnership – Licencing of Surveyors

In response to the Chairs question regarding business cases for new proposals, the Assistant Director (Corporate Servies) explained that she had spoken with the Director (Corporate Services) about devising a template to be used going forward to capture all relevant information for new proposals requiring a decision.

Cllr Meade suggested that artificial intelligence be considered for the new register due to the fraudulent risk it posed to Local Government

The Director (Corporate Services) thanked Cllr Meade for the suggestion and explained that the risk of AI had been discussed at the previous Management Team meeting and was a prevalent risk in the public sector. The Council needed to be clear about its relationship with AI, what range it would be used and the controls in place.

The Committee noted the report and were happy for artificial intelligence to be considered as part of the development of the 2024/25 Corporate Risk Register.

31. Internal Audit update

The Committee were provided with a report that updated them on the work, outputs and performance of the Internal Audit Team for the period 1 August 2023 to 30 September 2023 and the progress made against the Q1-Q2 workplan.

Members were advised that the report at appendix two was the second of three updates to be produced during 2023-24; the report covered a short period of only two months, with only one review (Housing Rent Recovery) finalised during the period, which was the last review remaining from 2022-23.

The Head of Internal Audit and Counter Fraud guided Members through the report and gave an update for each section. An executive summary of the reporting period was listed on page 110 of the report.

The Head of Internal Audit and Counter Fraud directed Member to the key performance indicators on page 116 of the report and gave updated figures, as of 08 November 2023, for IA9 ‘Proportion of agreed assurance reviews’:

a) Delivered – 40%
b) Underway – 20%

A list of the agreed follow up actions for reviews and their status was listed at section eight of the report.

In response to the Chairs questions, the Head of Internal Audit and Counter Fraud explained that:

- No financial loss had been identified for Housing Rent Recovery, but the Head of Internal Audit and Counter Fraud agreed to confirm the answer with Housing outside of the meeting.
- The Head of Internal Audit and Counter Fraud advised that updates on agreed actions are requested on a monthly basis. With regard to the Whistleblowing review; when the service was contacted in August the three actions were in progress and expected to be completed by the end of October. At the time of the meeting, no response had been received to the October follow up, so this would be chased outside of the meeting to see if the actions had been completed

The Committee noted the report.

32. Red Opinion Audit Report

The Committee was presented with a report that notified them of an Audit Opinion of Red following a review of Homelessness – Temporary Accommodation.

In accordance with the terms of reference of this committee, Internal Audit was required to report to the committee on reviews given an opinion of Red, where the Chief Audit Executive (in consultation with the Section 151 Officer and/or Monitoring Officer as applicable and following discussion with the Chair of the Finance & Audit Committee) considered the weaknesses identified to exceed a financial threshold of £25,000, or where they represented a significant risk to the achievement of the council's corporate objectives. The Head of Internal Audit and Counter Fraud and the Director (Corporate Services) considered the review to meet the threshold.

Section two of the report detailed the findings from the recent review of the '*Risk Management Objective: The provision of temporary accommodation (TA) is appropriately managed'* that had received an overall opinion of Red; a response from the service was included in the report.

In response to the Chair question, the Head of Internal Audit and Counter Fraud explained that he was satisfied with the response received from the service and all actions identified had been agreed. Some of the actions had been implemented before the report was finalised and dates for completion had been set with regular follow ups in the diary. The status of those actions would be fed back to the Committee through the normal reporting process.

The Committee noted the report.

33. Counter Fraud update

The Committee was provided with an update on the work, outputs and performance of the Counter Fraud Team for the period 1 August 2023 to 30 September 2023 in relation to the agreed workplan.

Members were advised that the report at Appendix Two was the second of three updates to be produced during 2023-24; despite the relatively short reporting period of only two months, there had been continued activity in most areas of the counter fraud plan and a further 13% of estimated resources was delivered during the period. Investigative activity in the reporting period identified cashable savings of £59,558 and the team concluded thirty five investigations.

The Head of Internal Audit and Counter Fraud Services guided Members through the report and gave an update for each section. An executive summary of the reporting period was listed on page 134 of the report.

In response to Member questions, the Head of Internal Audit and Counter Fraud Services explained that:

- With regards to the seven properties that were not in the ratings list that were identified and generated additional business rates of £69,906, some of these related to telephone masts which were rateable under business rates and were not necessarily buildings that had been completed but not informed to the Council. When a review was next carried out on business rates processes, they would look at communication with other services such as building control, to see if there could be any improvements to ensure new buildings are identified quickly.

The Committee noted the report.

34. National Fraud Initiative Annual Progress update

The Committee was provided with a report that outlined the work completed in relation to the data matches received as part of the National Fraud Initiative Exercises 2020-21, 2021-22 and 2022-23.

The Head of Internal Audit & Counter Fraud directed Members to section two, three and four of the report and highlighted key points: the report gave details of the NFI activity and outcomes to date relating to the 2020-21, 2021-22 and 2022-23 exercises. The total financial results from these exercises as of 30 September 2023 was £475,462.

The Head of Internal Audit & Counter Fraud advised that data submissions for the 2023/24 exercise would be completed in December 2023 and matches would be received within twenty four hours which meant work would commence very quickly.

The Committee noted the report.

35. Audit Findings Report 2019/20

The Committee was provided with a report that updated them on the current findings of the council's External Auditor, Grant Thornton UK LLP, from the ongoing audit of the council's financial statements and arrangements for securing Value for Money for the year ended 31 March 2020.

The Chair stated that the version of the report before the Committee was in its draft form and Management hadn't a chance to feed their comments in the final version; the Chair further stated that a special meeting of F&A Committee would be convened sometime in the future with the sole purpose being to receive and consider the Council's final, audited financial statements for 2019/20 alongside the associated external audit report and governance matters linked to this.

The External Auditor, Grant Thornton delivered a presentation and outlined the headlines from the report to the Committee:

- The draft report was submitted to the Committee as Member hadn't seen any reports on the 2019/20 accounts since July 2019; Covid-19 and the pandemic caused severe delays to the audits and operations of Council's across the country and all audit findings reports reference that fact
- Although significant progress had been made in agreeing adjustments related to the accounting for HRA valuations and St George's transaction, there were two key areas which Grant Thornton were unable to fully resolve and would result in a modified audit opinion.
- The first area was around asset valuations and the HRA Revaluation Reserve; a full breakdown of the identified risk and its effect to the audit of accounts was listed in pages 17-18 of the report.

- The second area was around the St Georges transaction which Grant Thornton had agreed with the Council that the transaction needed to be accounted for as a financial arrangement and the accounts were updated to reflect that. A full breakdown of the identified risk and its effect to the audit of accounts was listed in pages 20-21 of the report.
- There were a small number of other minor issues listed in the report.

The External Auditor, Grant Thornton also updated Members on the current position of Local Audit delays:

- The Government were concerned about the number of delayed audit opinions in the country which had risen to 913; the original deadline for the 2022/23 accounts was 30 September 2023 and only 1% of audits due had been completed by this time. The Government were in consultation with the Financial Reporting Council about finding a solution and had discussed various methods.
- One method being discussed, was the potential to require outstanding audits to be completed by an agreed cut-off date, potentially 31 March 2024.
- This approach would enable all external auditor firms to focus on the 2023/24 accounts next summer. Discussions would be had with the Director (Corporate Services) concerning the best way forward with the Councils accounts once a clear direction from government had been given.
- Annual Statements of Account during the intervening period that would not have been subject to audit would likely receive a statutory disclaimer which would likely apply to a large number of audits around the country.
- There were risks associated with the wholesale signing off of multiple years of accounts and those risks could surface in several years' time, but the upside was that all local authorities would be in the same position from 01 April 2024
- Proposals were also being considered by the Government and accounting and auditing bodies to reduce the amount of work involved in non-investment asset valuation and accounting code requirements.. Local councils and external auditors were aligned in their views that a disproportionate amount of time was spent on asset valuation, and it delayed the rest of the audit of accounts

The External Auditor, Grant Thornton fielded questions from Members and explained that:

- Grant Thornton admitted that the external auditors in 2007 or in subsequent years should have raised queries around the accounting of the HRA Revaluation Reserve, noting that the adjustment required was a technical adjustment and would have no impact on the 19/20 closing position of the council.
- The delays to the audits came about due to various reasons but a significant reason was after 2018/19 there was a change in regulations and the government enacted requirements on the Financial Reporting Council to demonstrate higher levels of scrutiny in all professions which led to increased workloads and made the auditor profession, both in private and public sectors, a less attractive option to work in. Auditing firms were finding it hard to retain and recruit staff and with a bigger focus on the technical aspects of audits it led to inevitable delays with completing the audit of accounts.

The Committee asked that the language in the report should be amended to be more balanced and recognise that some areas were outside the Council's control and many of the issues concerning lack of resources and capacity were shared with other local authorities.

The Committee noted the report.

36. Value for Money Report 2019/20

The Committee was provided with a report that informed of the outcomes of a review completed by Grant Thornton regarding the impact of the Council's arrangements during 2018/19 and 2019/20 in relation to the St Georges' Shopping Centre.

The report at appendix one provided Members with key findings and recommendations arising from Grant Thornton's assessment of the St George's Shopping Centre transaction in 2018/19 and 2019/20.

The External Auditor, Grant Thornton advised that his colleague Tom Foster had conducted the review and authored the report and had no prior involvement in any auditing of the 2019/20 accounts.

The External Auditor, Grant Thornton (Value for Money) took Members through the report and directed Members to page 171 of the report which held the conclusion and recommendations of Grant Thornton.

The Chair advised the Committee that the parcel of land and regeneration opportunities were broader than just the St Georges Shopping Centre.

The External Auditors from Grant Thornton fielded questions from Members and explained that:

- Back in 2018, income strip deals were new and untested opportunities with a number of Council's considering various deals. Following a question from a Member, it was acknowledged that the accounting treatment of such transactions, at the time, was not very well established and Council's would have had different views on the correct treatment. Technical details and the legal structures of the deals would have caused them to be treated differently such as the substance of who controlled the asset at the end of the deal.
- Due to Grant Thornton accepting the accounting treatment proposed by the council in the 2018/19 audit and the need to consider the need for the review, the External Auditor, Grant Thornton, advised that .to avoid any conflict of interests, he had consulted with the Legal department and Ethics department of Grant Thornton. The two departments reviewed the issue with the accounting treatment and their advice was that Grant Thornton was duty bound to continue the work but without anyone involved with the previous audit. Tom Foster and his colleague had therefore reviewed the transaction and created a 'lessons learned' type of report for the Committee.
- In preparing the review, Grant Thornton had had many discussions with senior Council officers regarding the report, though the report itself had not given the opportunity for a management response to be recorded. It was confirmed that at the proposed special meeting of the F&A Committee, a management response to the two recommendations made would be considered.

The Committee raised the following points:

- Cllr Burden was happy to accept the general content and direction of the report as well as the technical aspects but disputed the opinion that Members were not provided with the information, they needed to make an informed and appropriate decision. It was noted that it was a well-considered and innovative idea in 2018 and it received cross party support from all three political parties and was debated thoroughly in numerous meetings over a lengthy period of time which was not reflected in the report.
- With regards to the report referencing having sequential Cabinet, Overview Scrutiny Committee, and Cabinet meetings on the same evening, the report did not accurately reflect that there a significant number of briefings held before those meetings to discuss the proposed transaction and all political groups were involved and actively supported the decision made
- Additionally, the proposed transaction was brought to Grant Thornton’s attention at the time of the 2018/19 Statement of Accounts Audit and the external auditors did not raise any concerns over the accounting treatment
- Cllr Burden drew attention to paragraphs 5.27, 5.46 and 5.55 of the report as examples of where the language and tone of the report could be read as being emotive, rather than providing a balanced view of the facts.

The External Auditor, Grant Thornton (Value for Money) agreed that some of the language he used was clumsy and the messages of his wording were being misinterpreted and he agreed to amend the wording in the report.

The External Auditor, Grant Thornton stated that Grant Thornton should have identified the issues with the accounting treatment for the St Georges Transaction in 2018/19 and challenged at this time whether the transaction should be treated as a financing arrangement rather than a lease. The External Auditor, Grant Thornton pointed out that the external auditors had no role in making decisions for the Council, their role was to assess the Council’s arrangements in delivering value for money.

In light of the increasing prevalence of S114 Notices and the financial challenges facing local government, Members were keen to understand what the Council had changed and learnt in the five years since the St Georges transaction and reflected on the recent decision to bring forward a new leisure centre.
The Director (Corporate Services) provided the following clarification:

- In October, Cabinet considered a report on local authority interventions and the information produced by DLUHC on common characteristics of local authorities where intervention had taken place. A self-assessment had been undertaken of the council against the common characteristics and an action plan has been prepared to identify how further improvements to the council’s governance arrangements and culture could be made. The report was an opportunity to improve current arrangements in place and it was agreed that a report would be brought back to Cabinet in six months’ time to provide an update on the Councils position and would be reviewed through the annual AGS process.
- At the time when the decision was made to move forward with a new leisure centre, the opportunity to refurbish the current leisure centre instead was considered, however it was deemed unviable due to the significant cost and the layout of the current leisure centre not being right to support leisure faculties in the modern age.
- The Director (Corporate Services) advised that over recent years the council had looked to continuously improve and develop the presentation of information to

Members; following receipt of the review the council would be looking to consider further improvements to the way business cases were presented to ensure consistency and to further support Members in their decision-making processes.

37. Any other business which by reason of special circumstances the Chair is of the opinion should be considered as a matter of urgency.

The Director (Corporate Services) advised that a conversation would be had with Grant Thornton outside of the meeting about when they expected to be able to conclude the audit process for the 2019/20 accounts and following those conversations a date would be arranged for a special meeting of Finance & Audit Committee; Members would be informed as soon as possible.

Close of meeting

The meeting ended at 21:19pm.