

Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **22nd June 2017**.

Present:

Cllr. Waters (Chairman);
Cllr. Barrett (Vice-Chairman);
Cllrs. Buchanan, Galpin, Shorter, Sims, Smith.

In accordance with Procedure Rule 1.2 (iii) Councillor Galpin attended as Substitute Member for Councillor Burgess.

Apologies:

Cllrs. Burgess, Mrs Dyer, Head of Audit Partnership.

Also Present:

Cllr. Howard-Smith

Head of Finance and IT, Head of Corporate Property and Projects, Deputy Head of Audit Partnership, Audit Manager, Policy and Performance Manager, Accountancy Manager, Property Building Services Manager, Senior Policy Performance and Scrutiny Officer, Senior Member Services Officer.

Terry Blackman - Grant Thornton UK.

59 Declarations of Interest

Councillor	Interest	Minute No.
Galpin	Made a Voluntary Announcement as he had been part of the due diligence process and Member Monitoring Group on the Elwick development.	61, 62
Shorter	Made a Voluntary Announcement as he had been part of the due diligence process and Member Monitoring Group on the Elwick development.	61, 62
Smith	Made a Voluntary Announcement as he drew and received added years for a Local Government Pension	63

60 Minutes

Resolved:

That the Minutes of the Meeting of this Committee held on the 21st March 2017 be approved and confirmed as a correct record.

61 Presentations from Strategic Risk Owners

The Chairman explained that these would be the next in a series of regular updates from Risk Owners that would form part of the training and interaction process for this Committee.

The Head of Corporate Property and Projects gave an update on the risk theme - Key Project Failure, focusing on the major commercial development at Elwick Place. He circulated some images of the scheme and advised that the team had been working on this for the past 18 months. This was an extensive and impressive development consisting of a hotel, eight restaurants and a picture house cinema and signalled a complete departure from the normal type of projects undertaken by his team and incorporated commercial aspects, land, procurement and state aid. He then gave a presentation which gave a broad overview of progress over the last 18 months and re-iterated the risk elements and potential consequences of failure. To mitigate the risks he explained there were regular due diligence meetings involving Officers and Senior Members and there were regular updates to both Council Directors and the Ashford Strategic Delivery Board. They had reached an unconditional contract with the developer on 4th May and were now working towards completing the works by December 2018. As the project had now reached a number of key milestones, the risk had now significantly reduced, but would clearly not be eliminated until project completion. Future schemes would be dealt with in the same sort of way.

The Head of Finance and IT then gave an update on the risk theme of Resource Limitations. This was primarily a risk around losing funding, income streams and this creating pressure in the Council's revenue budget. The Council's accounts showed that the level of revenue reserves had actually increased quite significantly over the last financial year and the underlying need to borrow had decreased so both of these indicators suggested that the Council's financial position was strengthening and improving the ability to withstand shocks within this risk area. The Council had a balanced budget for the coming year and a strong Medium Term Financial Plan (MTFP) position although they would be reviewing the MTFP over the summer as usual and reporting back to Cabinet in the autumn. There were still a number of risk areas to consider including: - increasing inflation (including impact on the Council's refuse contract); macro-economic uncertainty over Brexit negotiations and their impact on the economy; and political instability with regard to any potential reforms to Local Government finance where key areas of uncertainty had been the future of business rates retention and the Fair Funding review. He said that when looking at the risk in its totality he was comfortable with the current rating. Both likelihood and impact remained moderate but they would keep an eye on the economy and the risk to investments any significant downturn may cause.

The Chairman then opened the item up to the Committee and the following responses were given to questions/comments: -

- The Vice-Chairman suggested that the outlook was for a low growth environment with moderate inflation. The Head of Finance and IT advised that the Council's financial planning was very much in line with forecasts for at least the next two years. There were some uncertainties over how long the current inflationary position would continue and the impact of that on UK

taxation, but this would continue to be closely monitored by both the Council's Finance Team and treasury management advisors Arlingclose. The Medium Term Financial Plan showed a balanced budget for the next two to three years but there would be pressures in years four and five (starting in 2021) and these would have to be carefully managed.

- The Council was continuing on its path to be self-sufficient and absorb the withdrawal of Government grant and its revenue raising activities had significantly aided that programme. There was currently no indication that the Government was going to enact its powers to limit Local Government borrowing. All borrowing and investment would be a decision for Members. Risks were spread in a portfolio sense (for example across offices, housing, leisure etc.) which was monitored.
- Advice indicated that the base rate of interest was expected to remain stable in the short to medium term with the Bank of England keen to stimulate the economy, so any sudden increases were seen as unlikely. In terms of any impact on the Council's investment strategy, the majority of the Council's investments were currently cash related so changes in interest rate would be proportionate. There were also however investments in stocks and shares and it would be necessary to keep a close eye on impacts on the FTSE and property funds.
- The waste and recycling contract was a ten year one, shared with three other Local Authorities, so did not lend itself well to procuring fixed price contracts in terms of fuel and labour costs. The contract had served the Council well in terms of inflation levels over the last two/three years although it was true there had been more of an impact this year.

The Chairman considered that any long term financial modelling was extremely challenging in the current climate and uncertain times lent themselves to reducing levels of risk, so he was heartened by the updates.

Resolved:

That the presentations be received and noted.

62 Corporate Property Management – Audit Report and Follow Up

This item was brought to the Committee in-line with the protocol that the relevant Head of Service for any audit report receiving a weak or poor assurance rating should attend the next available Audit Committee meeting to answer questions and discuss what was being done to put things right. The Audit Manager introduced the report and advised that the initial audit report was issued in May 2017 with a conclusion that controls offered only weak assurance and required further support to operate effectively. The outcome of initial follow up work confirmed that those recommendations which were due had all been implemented and good progress had also been made towards implementation of the remaining recommendations. The overall assurance rating would be assessed in the next quarter starting July 2017.

The Head of Corporate Property and Projects conceded that as a Service they had 'taken their eye off the ball' to an extent and apologised to the Committee. They had understood and taken on board all of the recommendations of the audit and it was now a matter of ensuring that the good governance practices were embedded across the operation. The move of the team to concentrating on securing income had been a significant and radical change in a relatively short period of time and perhaps led to a loss of focus over the last 18 months in terms of properly documenting and understanding the correct policies and procedures around reconciliation. Colleagues were working hard on this and he was confident that the results of the follow up would see all recommendations fully implemented.

The Chairman raised questions on the particular variances within the report and the Head of Corporate Property and Projects responded to the points raised.

The Vice-Chairman asked about procedure notes and whether those which the staff worked with on a day to day basis were sufficiently detailed and up to date. The Head of Corporate Property and Projects advised that the team was a diverse group of professionals who all had their own discreet areas of specialism and responsibility. In terms of resources, there was cover for the vast majority of work in case of absence. Procedure notes needed to be up to date and in place to reinforce that message and the recommendation was about embedding procedure notes throughout the team, not just in income collection.

The Chairman said it was clear that there had been some fairly lax processes in place, but these should be 'quick wins' in terms of putting the situation right and he looked forward to seeing that come forward fairly promptly in any follow ups.

Resolved:

That the report be received and noted and the progress towards implementation of the recommendations be noted.

63 Statement of Accounts 2016/2017 (including Member Training)

This report presented the 2016/17 draft Statement of Accounts for audit purposes and the Accountancy Manager gave an explanatory presentation for Members. The slides for the presentation were contained within the Agenda papers.

The Chairman thanked the Accountancy Manager for the presentation and said it had been extremely helpful to the Committee in the light of the work it would have to do at its next meeting in July.

Following the presentation the Vice-Chairman asked why the pension liability had increased by £16m in the past year (from £65m to £81m). The Head of Finance and IT explained that this was mainly around the complicated way in which pension liability had to be accounted for. Authorities were required by accounting standards to value their pension liability by working out how much it would cost the Authority to borrow to buy itself out of its pension liability on the corporate bond market. In reality this would not apply to Local Authorities. As corporate bond yields changed, the amount needed to borrow and the value of the liability fluctuated, so small changes

in the discount factor could have large knock on effects on the pensions liability. The actual valuation of the Council's pension fund had been received last Autumn and had been at its highest level for many years. This was part of the December 2016 draft budget report. That actual valuation also appeared at Note 28 to the Accounts.

Resolved:

That the Committee note the draft Statement of Accounts 2016/2017 which was sent for external audit and the training given

64 Internal Audit Annual Report and Opinion 2016/17

The Deputy Head of Audit Partnership introduced the report which presented the 2016/17 Head of Internal Audit's Opinion on the effectiveness of the Council's internal control, corporate governance and risk management processes. The conclusion was a positive one on all three aspects and set out the detail behind drawing that opinion together. The report also made a declaration that the Internal Audit team had worked independently and objectively and in accordance with their own Public Sector Internal Audit Standards.

He further advised that the report provided a wide-ranging update on the Audit Service and progress against its work plan for the year along with their own performance indicators and quality improvement programme. They continued to see positive responses to the recommendations they made and good engagement across the Authority and with this Committee.

The report was then opened up to the Committee for discussion and the following points were raised: -

- The Chairman asked if in the future there could be some consistency around the allocation of audit planning days (planned and actual).
- There was a typographical error on the table showing Plan Days and Actual Days which would need correcting.
- Projects undertaken by Mazars were contracted out at a set fee per project so any time overrun would not present a risk to the Service.

Resolved:

- That**
- (i) the Head of Audit Partnership's Opinion that the Council's system of internal control, corporate governance and risk management arrangements have operated effectively during 2016/17, be noted.**
 - (ii) the work underlying the Opinion and the Head of Audit's assurance that it was completed with sufficient independence and conformance with Public Sector Internal Audit Standards, be noted.**

65 Audit Committee Annual Report 2016/17

The Audit Manager introduced the 2016/17 Annual Report of the Audit Committee which summarised the Committee's discharging of the responsibilities set out for it in the Council's Constitution. The Committee was also asked to consider the proposed programme of briefings to support Member development as well as the Committee's current Terms of Reference and whether they needed to be updated or if any further assurances were needed by the Committee over the fulfilment of the duties therein.

The Chairman considered that a programme of Member development briefings would be vitally important going forward and the list of suggested topics in the report should form the basis of that programme. In terms of timings the Committee considered they should perhaps look at an upcoming topic one meeting cycle ahead, so for example 'Reviewing an Audit Plan' in December ahead of Plan approval the following March. He was also keen that the briefings took place as part of the Audit Committee meetings themselves rather than having to identify a separate session, but that all Members would be invited to attend. The Chairman and Key Officers were encouraged to set the programme on that basis.

In response to questions about whistleblowing it was explained that this was not something the Internal Audit team was heavily involved in at Ashford. The Council's HR team was responsible for whistleblowing and the Council's policy had been updated in the last couple of years. The view was that the policy was well understood and staff did have the opportunity to use it if they felt the need. There was currently one case ongoing. The Chairman said he did not think this Committee should get involved in the detail of whistleblowing reports, but merely assess whether the policy was in place and had been adhered to or not. It had been mentioned as part of the Committee's Annual report, but only to show that a process was in place. The Head of Finance and IT said that as he understood it, staff had a choice of three options to report whistleblowing incidents depending on how they felt most comfortable: - firstly HR; then the Corporate Fraud team; and also Internal Audit would be happy to receive any reports as a third option. The Head of Finance and IT and the Deputy Head of Audit Partnership said they would report back outside of the meeting on where the output of any whistleblowing incidents were reported.

Resolved:

- That**
- (i) the Audit Committee's Annual report for 2016/17 be agreed.**
 - (ii) the Committee agree to provide the Annual Report to Full Council, demonstrating how the Committee has discharged its duties.**
 - (iii) the briefing sessions proposed within the report be agreed and a programme be worked up on the basis of discussions at the Meeting.**
 - (iv) the Committee's Terms of Reference are up to date and no further assurance needs to be sought by the Committee at this time.**

66 Annual Governance Statement 2016/17

The report explained that each year the Council must produce and approve an Annual Governance Statement that summarised its approach to governance and showed how the Council fulfilled the principles for good corporate governance in the public sector. The Statement also drew conclusions about the effectiveness of the Council's arrangements, based on evidence throughout the past year. The Statement would be published alongside the Council's formal audited financial statements. This year's Statement built on previous statements but, for the first time, had been prepared in accordance with the Council's revised 2016 Local Code of Corporate Governance. It concluded that governance arrangements remained appropriate, effective and adaptive to change as circumstances dictated. The Senior Policy, Performance and Scrutiny Officer introduced the report and made reference to additional governance areas which would be monitored throughout the coming year.

Resolved:

That the 2016/17 Annual Governance Statement be approved.

67 External Audit Fee Letter 2017/18

The Council's External Auditor, Grant Thornton UK had submitted an Audit Fee Letter for 2017/18 which outlined their proposed fee. The scale of those fees was set by Public Sector Audit Appointments (PSAA) and the scope of the audit was determined by the National Audit Office. The fee for Housing Benefit certification was yet to be determined by the PSAA, but the Council would be updated as soon as that was set.

Resolved:

That the fee scale for 2017/18 and the External Auditor's outline of planned audit work for the year be noted.

68 External Audit Update Report

A report had been received from the Council's External Auditor, Grant Thornton UK to update the Committee on progress against the audit plan to date. Mr Blackman advised that Auditors were currently engaged on the final accounts audit that started on the 1st June and the Value for Money conclusion work and these would be reported on at the next meeting on 11th July. Progress so far had been good and they anticipated no problems with meeting this year's deadline of 15th July for the accounts to be signed off.

The Chairman encouraged all Members to read their papers for the 11th July meeting quite thoroughly and prepare any questions they may have in advance. The deadline was quite tight but it was important to come out of that meeting ready to sign off the accounts.

Resolved:

That the report from External Audit be received and noted.

69 Report Tracker and Future Meetings

Resolved:

That the report be received and noted.

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Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **11th July 2017**.

Present:

Cllr. Waters (Chairman);
Cllr. Barrett (Vice-Chairman);
Cllrs. Mrs Blanford, Burgess, Mrs Dyer.

In accordance with Procedure Rule 1.2 (iii) Councillor Mrs Blanford attended as Substitute Member for Councillor Buchanan.

Apologies:

Cllrs. Buchanan, Shorter, Sims, Smith.

Also Present:

Head of Finance and IT, Head of Audit Partnership, Accountancy Manager, Corporate Fraud Manager, Senior Accountant, Senior Member Services Officer.

Elizabeth Jackson - Grant Thornton UK.

80 Minutes

Resolved:

That the Minutes of the Meeting of this Committee held on the 22nd June 2017 be approved and confirmed as a correct record.

81 Statement of Accounts 2016/17 and the External Auditor's Audit Findings Report

The Accountancy Manager introduced this item. The report presented the 2016/17 Statement of Accounts for approval. The External Auditor's report was also attached and Elizabeth Jackson from Grant Thornton was present at the meeting to introduce this and take questions. The Appointed Auditor was proposing to issue an unqualified opinion on the accounts and, once approved, the accounts would be published.

The Accountancy Manager advised there had been a few changes since the Committee had previously considered the draft statement of accounts. The most significant of these was a misstatement of £1.7m between the bank account and the creditors. This was because whilst the payment had been made it had not been allocated so a creditor had been set up in-year. An adjustment therefore had to be made between current assets and liabilities. In addition, due to changes in the collection fund process in 2013/14, some income from court costs from that year had not been taken in to consideration. This had been picked up by the auditors and therefore written in to the accounts as an adjustment. An unadjusted error of £264k had also been picked up in the accounts and this needed to be written back in. Due to the complexity involved and because it would affect the NNDR 3 return from the

end of the year and Kent County Council and Fire, the Council had decided to not make that adjustment at this stage and include it as part of the closedown for 2017/18 and all of the statutory returns. In terms of the Audit Action Plan she explained that there were two actions. Firstly an error had been picked up in the bank reconciliation process where an item had been entered incorrectly. This had been resolved by the member of staff receiving more training and the introduction of a new control process with a second Officer review. Secondly, on journal processes, the audit highlighted that they continued to have concerns over the control of authorisation of Journals within the finance system. This was an area where External Audit and the Council often disagreed on the appropriateness of the control environment, whereby an average of 1600 journals per year were entered on to the system and in the Council's view, individual authorisation would be extremely time consuming and not significantly enhance the control environment. They would however work with External Audit to seek to develop a proportionate authorisation process.

Elizabeth Jackson then introduced the External Auditor's Audit Findings Report. She confirmed that Grant Thornton would be issuing an unqualified opinion on both the audit and the value for money conclusion which was clearly a good outcome. This would happen on the 15th July after the Council's public inspection period had closed. Additionally the quality of the set of accounts produced by the 22nd May had been very high and this was commendable in light of the earlier timetable. She also drew attention to the fact that all of the work marked as outstanding on page 13 of the Agenda had now been completed. One thing to note was that she had been contacted earlier that day by a local elector who was considering making an objection to the accounts. She had advised him that he had the ability to do so until 5pm on Friday 14th July, but this would not impact on the audit opinion she intended to issue. As mentioned there was an unadjusted misstatement of £264k. Whilst they were satisfied with management's explanation as to why they were not proposing to amend it in the accounts, a formal request to make the amendment had been included within the draft letter of representation in line with International Standards on Auditing (ISA). She concluded that External Auditors had worked well with the Council's Officers during the process and they were happy with the outcome of the overall audit.

In response to a question from a Member it was explained that the error on the bank reconciliation had included correct figures, but they had been entered the wrong way round (debit and credit). Once corrected the account had reconciled. Staff did receive training and this was a simple error by one member of staff which had been picked up by the audit.

Further to discussions on journals, Elizabeth Jackson advised that it was viewed as standard practice that all journals should be authorised before being posted to the ledger (i.e. a second person checking them). The Council's e-financial system did not include an automatic authorisation of journals so the only way this could be done was via a hard copy print out of each journal. It was therefore recognised that this was not a realistic or proportionate response, so External Audit were not insisting on this, but they did need to note that the Council had not implemented this control. She re-iterated that there were no errors or fraud in the journals and they were satisfied that the other controls that the Council had in place could effectively pick up any errors. The Head of Finance and IT confirmed that the team had also agreed to

introduce a check of 'material' journals as a meaningful and proportionate response and this would also ensure a better quality of check.

Resolved:

That the Audit Committee:

- (i) considered the Appointed Auditor's Audit Findings;
- (ii) agreed the basis upon which the accounts had been prepared (going concern);
- (iii) approved the audited 2016/17 Statement of Accounts;
- (iv) approved that the Chairman of this Committee signs and dates the accounts as required by Section 10(3) of the Accounts and Audit Regulations 2003 as approved by the Council;
- (v) approved the Chief Financial Officer's Letter of Representation to the Appointed Auditor.

82 2016/17 Financial Statements – Letters of Assurance to External Auditors

The Head of Finance and IT introduced the report which explained that each year, in support of the external audit of the Council's financial statements, it was necessary to provide two assurance letters to the Auditors. These were important statements on which the Auditors relied for their opinion work. One was from the Chairman on behalf of the Committee and the second was from the Head of Finance and IT on behalf of management and both were attached to the report. They covered assurances related to such matters as disclosure of material facts affecting the statements, fraud and contingent liabilities and legal issues affecting the statements.

Resolved:

That the Chairman's and Management's 2016/17 assurance letters be endorsed.

83 Corporate Enforcement Support and Investigations Team Annual Report 2016/17

This report reviewed the past financial year results for the Investigation Service and Enforcement Support within the Finance department. The Corporate Fraud Manager introduced the report and introduced herself to the Committee. She advised that in addition to the review of the past year, the report built upon previous reports regarding the future of the Investigation Service and requested approval to re-launch the Service with a new pro-active safeguarding approach. The report also reviewed the delegated powers of the team which would strengthen the Council's approach to tackling and safeguarding its funds and services from abuse such as: - financial irregularity; evasion; avoidance and fraud.

The Chairman opened up the report for discussion and the following points were raised: -

- The team had recovered £323,990 and the total direct cost of the team was £107,792. It was difficult to compare to previous years because powers to investigate Housing Benefit Fraud had been revoked by the Department for Work and Pensions and this had previously been an area of great focus for the team because of the levels of payment. Officers were extremely pleased with the outcomes for the past financial year and the breadth of services now covered.
- The Chairman said that any service which could produce an income level three times higher than its cost had to be recognised and appreciated and he wanted to thank those involved. In his opinion the Council had to be looking at options to increase the size of the team to maximise these opportunities. Even if the team was just breaking even, the deterrent element for individuals who may be considering fraudulent behaviour was invaluable, but the multiple of three times investment justified further investigation in to expansion possibilities. He proposed an addition recommendation (iv) to this affect.
- The Committee was pleased to see the team branch out in to other areas and the example of the successful prosecution for fly-tipping was mentioned. A Member said that publicity of such examples was key to act as a deterrent. The Corporate Fraud Manager advised that in looking to the future the team wanted to embrace the opportunities available and look to the wide-range of threats to the Council's funds and resources and safeguard them for the people that really needed them. Areas such as general enforcement, fly-tipping, Council Tax and Business Rate fraud and social housing/tenancy fraud would all be areas of focus. They were fortunate to have the backing of Kent Housing Group and had been involved in the launch of a Kent Tenancy Fraud Forum which would allow the sharing of best practice between all housing stock owners in Kent and, on Council Tax and Business Rates, they had access to the KIN (Kent Information Network) which allowed data matching.

Resolved:

That the Audit Committee:

- (i) note the contents of the report regarding the last financial year.**
- (ii) note the forthcoming financial year's work plan.**
- (iii) endorse the delegated powers of the Service outlined at Paragraph 26 of the report.**
- (iv) encourage Officers to develop a plan to enhance the team's resources, building on the good work already undertaken and giving opportunities for a larger return on investment for the Council, as well as continuing to offer an important deterrent factor.**

84 Homes and Communities Agency – 2016/17 Compliance Audit Programme

The Chairman advised that the previous day he had received a letter from the Homes and Communities Agency (HCA) advising of the outcome of a compliance audit exercise to validate adherence to the guidelines of HCA funded schemes. He was pleased to advise that the Council had received a green grade on the traffic light system which confirmed they met the requirements with no breaches. Copies of the letter had been tabled for Members' information. The Chairman had therefore been asked to draw this to the attention of the Audit Committee and sign and return the report.

Resolved:

That the letter be received, noted and signed by the Chairman.

85 Report Tracker and Future Meetings

Resolved:

That the report be received and noted.

DS

Queries concerning these Minutes? Please contact Danny Sheppard:
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