

## Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **10<sup>th</sup> July 2018**.

### Present:

Cllr. Barrett (Vice-Chairman in the Chair);  
Cllrs. Mrs Dyer, Hicks, Link.

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

### Apologies:

Cllrs. Smith, Waters.

### Also Present:

Director of Finance and Economy, Head of Finance, Senior Accountant, Senior Accountant, Deputy Head of the Audit Partnership.

Audit Manager – Grant Thornton UK, Audit Director – Grant Thornton UK.

## 79 Minutes

In accordance with Procedure Rule 9.3 Mr Relf, a local resident, spoke in relation to the minutes of the previous meeting. He said that when residents spoke at Council meetings, they were required to submit their question verbatim but minutes of these meetings did not provide a verbatim record of the question or the Council's response. Mr Relf cited as an example the minutes of the Audit Committee on 21<sup>st</sup> June 2018, which he considered did not accurately convey to residents the extent of lost Council revenue due to specific discrepancies on the Business Rates Valuation Register. Mr Relf asked whether the Council could assure him that in the future the minutes of Council Meetings would accurately reflect the questions raised and the Council's response. He also questioned whether the Council could assure him that before statements relating to Council departments and outside agencies were recorded in the minutes checks were made to establish accuracy.

The Vice-Chairman in the Chair confirmed that the Council did request that questions put to Committees, such as this one, were submitted verbatim. This was to ensure that Officers were able to provide answers to questions posed. He clarified that the minutes of this Committee were not a verbatim account of everything said at a Meeting, as they were intended to be an accurate summary of the proceedings and of the decision reached, including, where appropriate, the essence or the main threads of the discussion that led to the conclusion. The minutes of the Full Council, at which Mr Relf had spoken previously, were minuted verbatim. These were the only minutes that were recorded in such a manner. The Vice-Chairman in the Chair assured Mr Relf that the minutes were checked by those Officers present at the meeting for accuracy and were approved by this Committee and subsequently by Full Council. Any statements made by public speakers were recorded in the minutes in the appropriate manner. No checks would be carried out to validate any figures or statements made by public speakers.

Public speakers were responsible for ensuring the accuracy of any statements prior to addressing the Committee.

**Resolved:**

**That the Minutes of the Meeting of this Committee held on the 21<sup>st</sup> June 2018 be approved and confirmed as a correct record.**

## **80 Statement of Accounts 2017/18 and the External Auditor's Audit Findings Report**

The Director of Finance and Economy introduced this item. He said the substance of the agenda tonight was the culmination of the Audit of the Statement of Accounts. The first item was the revised Statement of Accounts. The Committee had received a draft Statement of Accounts at the last meeting and the audited and amended version were presented to this Meeting. The report discussed the process undertaken and thanked the Auditor for their work and cooperation. He considered that the audit had gone very smoothly this year and that a good working relationship had been established between the Council and the Auditor. The Committee were asked to note the going concern basis of preparation, which had been noted in the Auditor's report. The report also discussed the amendments made to the Statement of Accounts, which were detailed in the Auditor's report. The main focus had been on changes in disclosure requirements, such as changes to the narrative report and the number of Disclosure Notices. The Audit Action Plan made two recommendations in relation to Section 106 contributions, and the Public Inspection Period. With regard to Section 106 contributions, a way forward had been discussed with the Auditor and a plan had been put in place for handling these issues in future. With regard to the Public Inspection Period, there had been an error on the part of the Council in the publication of the draft Annual Governance Statement, which had now extended the Public Inspection Period for a number of days, after which it should be possible to close the Audit and have the Audit Opinion issued.

The Audit Director (Grant Thornton UK) introduced the Audit Report, which summarised the findings and conclusions of the Audit across all the areas of responsibility, including the Financial Statements and consideration of the Value for Money requirement. It was the Auditor's proposal, subject to completion of the outstanding work, to issue unqualified opinions on both the Accounts and the Value for Money conclusion.

The Audit Manager (Grant Thornton UK) ran through the details of the report. He said that some of the information in the report did not necessarily apply to the Council, but it was necessary to meet the requirements under auditing standards. He said that with regard to the Financial Statements, the audit was substantially complete although there were a number of areas to be finalised. The Accounts had been prepared to a high standard, and had required a great deal of complex work. At the moment there was no indication of any objection to the Accounts, but this was still possible up to the date the Inspection Period closed. There had been more focus on Going Concern this year than in previous years, but the Auditor had concluded that there were no issues to bring to Members' attention. The Significant Audit Risks section laid out the likely risks and the work undertaken to address those risks. The Audit Manager assured Members that these were risks which faced all authorities and no reason for concern had been uncovered in the Audit.

A Member asked whether the Auditor was satisfied with the Council's valuation of buildings. The Audit Manager said that the Council used an external valuer. The Auditors had satisfied themselves regarding the work undertaken by the valuer in light of their experience and knowledge, as well as how the results of the valuer's work had been incorporated into the Accounts. A number of tests had been carried out and there were no concerns on this issue.

Another Member noted that the valuation of heritage assets was based on their insurance value, and she was surprised by the low figures. The Head of Finance responded that heritage assets were hard to value because they did not usually have an existing use value. One of the ways in which the Council was permitted to value them was by using the insurance value, which would be based on a replacement cost. It was always a moot point whether heritage assets would be replaced on a like for like basis, so valuation was a complex issue.

The Audit Manager said that accounting policies were well-established and the Council worked within a framework of local government accounting. The only comment was on the treatment of developers' contributions. The Auditor considered that there should be better differentiation and had made a recommendation on this item. The Audit Manager said contributions were currently not clearly badged and could be put to a number of different uses. There was value in reviewing current practice and making a distinction between funds used for revenue and capital. The Audit Manager considered that the summary in the report covered all the substantive issues.

The Audit Manager drew to Members' attention the need for action in relation to the notice period for the Annual Governance Statement. This was one of the recommendations in the report. Another risk had been identified under Value for Money, with regard to financial position and financial sustainability, and this was a common risk across councils generally. The Auditor had considered this risk, and did not feel it should be of concern to Members.

The Vice-Chairman in the Chair asked whether the Auditor was happy with the Council's Revenue Budget gap. The Audit Director said that it was not a question of whether the Auditor was content with the Budget gap, but whether the Council had robust financial management arrangements in place to address the issue. The Auditor had taken into account the findings from the Peer Review, and the financial performance of the authority, and had come to the view that the Council had satisfactory arrangements in place to manage the financial position at present. The Auditor had no undue concerns on this matter.

The Audit Manager said he would like to place on record his thanks to the Senior Accountant and the finance team for their work on closing accounts. He said the process had gone very well.

The Vice-Chairman in the Chair asked the Director of Finance and Economy for the management response to the recommendation in regard to the Public Inspection Period. The Director of Finance and Economy explained that there had been an Officer error in calculating the Public Inspection Period. The correct information was not published on the internet and as a result the Inspection Period had to be extended. There would be a review of processes to ensure that this did not happen again.

The Vice-Chairman in the Chair noted that according to the report there were no adjustments found. He thanked the Director of Finance and Economy and his team for achieving this result. The Director of Finance and Economy said that the Senior Accountant had been the main Officer responsible for the Statement of Accounts and he congratulated her achieving a high-quality Audit result. A Member said it was reassuring to know that good accounts were coming forward, and he thanked the Auditor for their part.

The Director of Finance and Economy explained that the amended Statement of Accounts was submitted to the Committee for approval and adoption. The Statement of Accounts would be signed at the end of the meeting by the Vice-Chairman in the Chair and the Director of Finance and Economy. Pages 30 and 31 of the Agenda showed the adjustments to the Disclosure Notice and these were reflected in the Statement of Accounts now being considered. Once the Inspection Period had expired, subject to no objections or post-balance sheet events, the Audit Opinion would be attached to the Statements, which could then be published and the Audit closed.

A Member asked about Treasury Management and it was confirmed that the Council's short and long-term borrowing amounted to £36m and investments amounted to £38m. She also said that it was very helpful to see the grant income displayed clearly in the report.

The Vice-Chairman in the Chair asked the Director of Finance and Economy for his estimate of possible risk if there were more successful appeals by rate-payers than anticipated. The Director of Finance and Economy responded that the Council was in the 2017 Valuation List and was expecting a number of appeals against the valuation, but these had not been forthcoming. It had been difficult to quantify as there was no history to form a baseline position. Officers had used the Government's estimate of between 4 – 5% of the rateable value. Based on current experience it was considered that this was an appropriate position. This could be reviewed annually to see if a trend was developing and the position needed to be adjusted.

The Vice-Chairman in the Chair drew attention to the assumptions made about the future and other major sources of estimation uncertainty. He questioned whether the margin for error was too small, and expressed concern over the effect if actual results differed from assumptions. He asked the Director of Finance and Economy how this risk was being managed. The Director of Finance and Economy responded this was a very long-term issue and small changes in discount rates and mortality rates could have significant impact on liabilities. However, all these assumptions in changes would be incremental over time and, with careful monitoring, the Council could make adaptations and adjustments to its financial strategy accordingly during that period. It was acknowledged that there was a Pension Fund deficit, and the Council would seek ways to close the gap over a 20-year period.

In response to a question, the Director of Finance and Economy said that the Council employed experts based on a procurement exercise undertaken by KCC. It was important to challenge and test the advice of the experts to ensure that it was based on robust and sound assumptions, but once the Council had satisfied this part of the process, there would come a point where it would be necessary to trust the methodology and professional ethics of any approved adviser.

A Member asked whether the Council would act as guarantor for Ashford Leisure Trust. The Director of Finance and Economy said that the current procurement exercise had resulted in a cessation report. If the Leisure Trust ceased but continued to pay in contributions, the scheme would be considered fully-funded. The Council was currently looking to proceed on this basis. Any new operator would be expected to offer a similar pension scheme to any staff who had been TUPE'd across and, in such a case, the Council would not be implicated in any pension costs.

## **Resolved**

To

- i) Consider the Appointed Auditor's Audit Findings and approve the audited 2017/18 Statement of Accounts;**
- ii) Approve 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;**
- iii) Approve the Chief Financial Officer's Letter of Representation to the Appointed Auditor.**

## **81 2017/18 Financial Statements – Letters of Assurance to External Auditors**

The Director of Finance and Economy introduced this item. He said the two letters had been requested by the Auditor to give them assurance on the governance arrangements put in place by the Council, which were necessary for the Audit to be completed. The Auditor had received draft copies of the letters, and the Chairman had agreed that these could be signed. The Director of Finance and Economy asked the Committee to note the letters and agree them. The Auditor had also questioned management about the risk and control environment, and the Council's responses were included for the Committee to note and agree.

A Member said that the questions put forward by the Auditor had prompted excellent responses. He was aware of the risks the Council was taking on in terms of enterprise and he considered that these responses illustrated the due diligence the Council took in managing those risks.

The Vice-Chairman in the Chair asked how the Council communicated to employees and contractors its views on appropriate business practice and ethical behaviour. The Council had stated that it was not aware of any new whistleblowing complaints this year, and the Member asked for this to be clarified. The Head of Finance and Economy said the wording would need to be amended, but a section in the Annual Governance Statement explained the levels of behaviour expected. The Conditions of Service were made available to all staff and any changes were communicated to staff. Training had also been provided on whistleblowing. Regarding contractors, the Annual Governance Statement was also available, as well as guidelines during the contracting process. The Director of Finance and Economy confirmed that the document would be amended.

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A Member asked for further information about older persons living at Repton Park. The Director of Finance and Economy said this issue had been reported to and agreed by Cabinet a number of months ago. A site at Repton for older persons living had a stalled Section 106 contribution so the Council was approached by Chaney Capital, an investment firm who were looking to use an ethical development fund to deliver more affordable or social housing. The Council were in discussion with Chaney Capital about an arrangement to deliver housing units, which would be provided by Chaney Capital and run and let by the Housing Revenue Account.

**Resolved**

**That**

**The Audit Committee endorses the Chairman's and Management's Assurance Letters.**

## **82 Report Tracker and Future Meetings**

It was noted that the next Meeting of the Audit Committee would take place on 27<sup>th</sup> September.

**Resolved:**

**That the Committee notes the schedule of meetings.**

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