

GOVERNANCE & AUDIT COMMITTEE

Minutes of the meeting held on 22 July 2020 at 5.00 pm in Online Viewing Only.

Present: Councillor Simon Day (Chairman); Councillors Dexter, Boyd, Braidwood, Campbell, Crittenden, Garner, Pat Moore, Shrubb and Towning

In Attendance: Councillor Ashbee, Hart and Pugh

13. APOLOGIES FOR ABSENCE

At the meeting, apologies were received from Councillor Kup.

14. DECLARATIONS OF INTEREST

There were no declarations of interest.

15. MINUTES OF PREVIOUS MEETING

Councillor Campbell proposed, Councillor Shrubb seconded and Members agreed the minutes as a correct record of the meeting held on 4 March 2020.

16. QUARTERLY INTERNAL AUDIT UPDATE REPORT

Mr Simon Webb introduced the report and highlighted the following:

- Ten new audits were completed in the period under review;
- Substantial assurance with few recommendations for improvement in the area of treasury management. Ramsgate Marina, insurance & inventories of portable equipment, capital, housing rents and printing, postage & photocopying;
- Limited assurance was recorded in the area of employee health and safety at East Kent Housing;
- EKH will be coming in house as from the 1 October 2020, and staff from EKH will come under the TDC arrangements for employee health and safety. It is anticipated that there would be substantial improvement in this area at that point;
- Another audit was conducted for housing repairs, maintenance and void property management and it finding was limited assurance in the key area of housing repairs, particularly around contract management of Mears contract, as post inspections were not undertaken on regular basis;
- With regards to Building Control recorded limited assurance. At the time of audit there were changes to management changes and they were trying to address some of those issues highlighted by Audit;
- Audit undertook follow up reviews on a number of areas that included tenant health and safety. There were concerns affecting that area for a while. There was no assurance on passenger lifts and the follow up recorded no assurance still;
- Audit of PCIDSS – the assurance is still reasonable/limited. The outstanding areas are now very few;
- The lockdown due to the pandemic had in some way affected the audit plan as staff had been redeployed. However a good amount of audits had been commenced.

Responding to the presentation Members made comments and asked questions as follows:

- What has been the impact of the covid pandemic on the audit work and whether the audit team would be able to carry out all their work throughout the year?

Mr Webb responded as follows:

- Although it was slightly early to predict, the Audit team had been impressed by the amount of audit that had been greenlighted in the last few weeks;
- Currently there were a number of audits that were underway, with more being approved each day;
- There should a reasonable amount of work that should be done this year in order to inform an opinion for next year's annual audit report;
- April and May working period was lost largely to covid-19. However the team had prioritised those audits from June onwards that could be carried out largely remotely, using remote working technology (video conferencing) to talk to staff;
- A lot of the audit testing can be done remotely. Where there is a requirement to visit premises that had been pushed back into Q3 and Q4, hoping that the lockdown measures would continue to ease.

Councillor Campbell proposed, Councillor Dexter seconded and Members agreed the following:

1. That the report be received by Members;
2. That any changes to the agreed 2020-21 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of Annex 1 of the report be approved.

17. ANNUAL INTERNAL AUDIT REPORT

Christine Parker introduced the report and made the following comments:

- The purposes of the report were very important for the committee to note when discussing this item. These were to:
 - Provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment;
 - Present a summary of the internal audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies,
 - Draw attention to any issues the Head of the Audit Partnership judges particularly relevant to the preparation of the Annual Governance Statement;
 - Compare actual audit activity with that planned, and summarise the performance of Internal Audit against its performance criteria;
 - Comment on compliance with the Public Sector Internal Audit Standards (PSIAS), and report the results of the Internal Audit quality assurance programme;
 - Confirm annually that EKAP is organisationally independent, whether there have been any resource limitations or instances of restricted access.
- The report also records how well the audit team had performed in relation to the work they set out to accomplish;
- The report comments on how well the council management responded to comments raised by the Audit team;
- How much assurance the report provides for the committee as a result of the audit work;
- Twenty two projects were planned. Twelve were put back for various reasons. Five from 2018-19 were also completed;
- Eighty seven recommendations had been made by Audit. Three were critical, thirty seven were high risk and twenty six were medium risk;

- Sixty four percent of the reviews complete were either substantial or reasonable assurance;
- One review which had a partially limited assurance after follow up and three risks that were outstanding at that time were escalated to the committee during the year;
- With regards to overall control, there were five new areas with partially limited assurance. These would be followed up in due course;
- A matter where there was alleged dishonesty, the officer subsequently resigned prior to disciplinary proceedings;
- There were some lengthy delays in management responses to audit comments. This was due in part to the covid-19 pandemic and the report notes that as well;
- The overall opinion of the East Kent Services Annual Report provides a reasonable assurance;
- The annual EKH report that was presented to the EKH Board concluded a limited assurance. This is the last annual report before the service is brought in-house;
- It was worth noting that the quarterly audit report used new definitions from CIPFA that came into use as from April, 2020, whilst this annual one used the older definitions;
- The overall comment in the report concludes a reasonable assurance. This was based on the internal audit work completed and reported to the committee throughout the year;
- However it should be noted that Audit have raised some concerns with the three statutory officers, Grant Thornton, chairman and vice chairman of the committee regarding some matters that Audit have been involved during the year, which were still to be resolved. The matters would be resolved and reported in the next annual audit or governance report.

Members made comments and asked questions as follows:

- A whistle blowing fact finding matter was not fully concluded. Did Audit consider this to be a serious matter? When would the fact finding be completed? What was stopping Audit from completing it? Was this issue appropriately prioritised by the council?
- What was meant by the comment in the report that referred to the emergence of management override?
- Members thanked the Audit team for the work they had done throughout the year;
- Why wasn't an investigation followed through regarding officer dishonesty, because resignation was an admission of guilt?
- What are the weaknesses in the current anti fraud and whistleblowing arrangements?

Ms Parker responded as follows:

- Yes the matters were very serious and there have been a full and thorough commissioning of work undertaken to understand what those issues were and to get them resolved;
- Council functions are directed by procedures, controls and processes. That is what good governance encourages. Grant Thornton would normally be testing for Management Override of controls and how often this occurs;
- The breaches being referred to in the report were of financial procedure rules, where one officer prepares the work and the other authorises the expenditure. These were the controls that had failed;
- The matter was not concluded as the matter did not reach the hearing stage because the officer had resigned;
- With regards to the whistle blowing matter, the council had received an outcome report following on from an investigation;
- It was difficult to give absolute assurances because the comments were a snap shot at the time and situations could change at any time;

- Reasonable assurance gives recognition to the fact that management responds to audit observations and took corrective action were appropriate;
- Resignation was not an admission of guilt. However once an officer left the organisation, they would not be bound by council employment policies. The involvement of the Police in the matter was not viewed as appropriate in this particular set of circumstances.

Councillor Campbell proposed, Councillor Dexter seconded and Member agreed that the report be received by Members. The committee also agreed Option 2 at 2.2 of the covering report seeking to register their comments with Cabinet in respect any areas of the corporate governance, risks or controls they have ongoing comments on after considering the work of IA.

18. ANNUAL GOVERNANCE STATEMENT

Tim Howes introduced the report and sought member comments to the annual governance statement.

Members made comments and asked questions as follows:

- A decision was made at Full Council last year that a member group be set to review the council's governance arrangements. Would it possible to get some officer support for the work of this member group that would like to undertake some governance review work in relation to TDC governance arrangements?

Mr Howes advised the meeting that the decision was very specific and that they did not want officer input the member group was actually going to be led by Members themselves.

Councillor Dexter proposed, Councillor Campbell and the committee agreed the draft Annual Governance Statement 2019/20, which will be shared with the council's our external auditors for amendment (if necessary) prior to publication.

19. 2019-20 ACCOUNTING POLICIES

Chris Blundell introduced the report and make the following comments:

- These were a fundamental part of the council's accounting;
- There was a proposals in the increase to the minimum in the capital expenditure from April 2020 onwards, which has been increased from £10k to £15k. That means that any expenditure below £15K would be considered as revenue, even if that expenditure met all other definitions and criteria;
- There have been changes to statutory deadlines for the closure of the accounts. Due to Covid-19, the deadlines have been extended for one year;
- The committee will now have to consider the accounts for approval by 30 November and not by end of July as is always been the case. This means that an extraordinary committee meeting would have to be scheduled close to that date;
- Draft accounts would now be published on 27 August 2020 and public inspection of accounts would commence from 01 September.

Councillor Shrubbs proposed and Councillor Towing seconded and the committee agreed the following:

1. To approve the policies as set out in Annex 1 and 2 of the committee report;
2. To note the changes to the statutory audit deadlines for 2019-20.

20. IN-DEPTH INSIGHT INTO THE IMPACT OF COVID-19 ON FINANCIAL REPORTING IN THE LOCAL GOVERNMENT SECTOR

Sebastian Evans from Grant Thornton introduced the item and made the following points:

- This reports on some of the reporting considerations and different potential issues that may have an impact on financial reporting;
- There were specific additional procedures for financial reporting that Grant Thornton would be looking at, both in respect of overarching risks presented by Covid-19, and specific work streams (for example looking at the valuation of property, plant and equipment) and how the pandemic has impacted on these.

Councillor Campbell asked for an explanation on how had covid-19 affected Thanet specifically.

In response Sebastian Evans and Tim Willis said following:

- A lot of changes, that include additional funding from government would have an impact on council finances;
- The July estimates would be reported to Cabinet on 30 July and that included the financial impact of covid-19 on council finances.

Members noted the report.

21. QUARTERLY RISK MANAGEMENT REPORT

Tim Willis introduced the report and made the following comments:

- A new risk had been added to Risk Management which referred to Covid-19;
- He pandemic had increased pressure to the council's finances;
- However this had not changed the risk score in relation to finance, since the last quarter;
- Covid-19 has the potential to complicate the preparations for Brexit, but it was difficult to quantify at this stage.

Councillor Garner proposed, Councillor Dexter seconded and Members approved the review of corporate risks.

22. TREASURY MANAGEMENT OUTTURN REPORT

Chris Blundell led the discussion for this item and made the following comments:

- The figures used the report were provisional as final accounts have not yet been finalised;
- Any significant changes would lead to an updated report being provided to the committee;
- There were a number of indicators that the council has to report against. One part of the report is on cashflow and the other part is how council funds its capital programme including how council pays for its investments;
- There has been a significant underspend against both the General Fund and HRA. There was a budget of about £36million but only £17million was spent;
- This is a trend that needs to be tackled. It is anticipated that there would further slippage of projects into the future;
- There was a report going to the July Cabinet with those issues and a report would also be coming to the committee in September with further details on the draft outturn position;

- The council's capital finance requirements should not be higher in the short term than the actual debts; At year end the council was holding debts of £25million of debts and total future debts requirements of £50million;
- The council would under borrow in order to meet the balance. A COUNCIL was required by statutes to hold debt limit of £103million, in a year. However at year end, the council had a total of £30.5million debt;
- Council had £33.9million worth of investment. Council is therefore in a net investment position at year. The investment is a very low risk money market;
- There was a breach in overdraft limits due to a clerical error. This was because the officer who usually undertakes these duties was annual leave and a colleague forgot to undertake the daily task, leading to the council being overdrawn by a day. This was despite all procedure rules being in place;
- Counter party limits with the council's bank exceeded the limits. This was due to the unusual operational circumstances as a result of the Covid-19 pandemic. This was deemed acceptable due to the circumstances.

Councillor Dexter proposed, Councillor Campbell seconded and Members agreed the following: that

1. To note the actual 2019-20 prudential and treasury indicators in this report;
2. To approve this Annual Treasury Management report for 2019-20;
3. To recommend this report to Cabinet and Council.

23. EXTERNAL AUDIT PLAN UPDATE

Mr Evans introduced the report and made the following comments:

- There have been changes to the time line and how Grant Thornton would work remotely with TDC;
- These changes have been brought about as a result of Covid-19;
- Experience gained from the work done with the NHS would be used to bring best practices.

Members noted the report.

Meeting concluded: 6.12 pm