

DARTFORD BOROUGH COUNCIL

**AUDIT BOARD**

**MINUTES** of the meeting of the Audit Board held on Wednesday 17 July 2019 at 7.00 pm.

**PRESENT:** Councillor D A Hammock (Chairman)  
Councillor D Butler  
Councillor R Gosine  
Councillor S N Gosine  
Councillor P M Harman

**ABSENT:** Councillor Mrs J A Ozog  
Councillor A R Lloyd

**IN ATTENDANCE:** Sarah Martin – Strategic Director (Internal Services)  
Tim Sams – Financial Services Manager  
Russell – Internal Audit Manager  
Heppleston  
Glen Moore – Counter Fraud & Compliance  
Manager  
Elizabeth – Grant Thornton UK (External  
Jackson Auditors)  
Keyasha Pillay – Grant Thornton UK

**1. APOLOGIES FOR ABSENCE.**

Apologies for absence were received from Councillors Mrs J A Ozog and A R Lloyd.

The Chairman welcomed Elizabeth Jackson and Keyasha Pillay from Grant Thornton UK, the Council's External Auditor's, gave a special welcome to all new Board Members, and noted the presence of the Strategic Director (Internal Services), the Financial Services Manager, the Audit Manager and the Counter Fraud & Compliance Manager.

**2. DECLARATIONS OF INTEREST.**

There were no declarations of interest.

**3. CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 27 MARCH 2019**

The Chairman, as the only Board Member present at the last meeting on 27 March 2019 confirmed that the Minutes for that meeting enclosed in the published agenda were a true and accurate record of those proceedings.

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#### 4. URGENT ITEMS

The Chairman confirmed that there were no urgent items of business for the Board to consider that evening.

#### 5. REFERENCES FROM OTHER COMMITTEES (IF ANY)

There were no references from other Committees for the Board to consider.

#### 6. REPORT FROM EXTERNAL AUDITOR

The covering report from the Financial Services Manager (FSM) enclosed three documents from the Council's External Auditor, Grant Thornton UK, for consideration/approval by the Audit Board as appropriate;

- Audit Findings Report for the Council for the Year ended 31 March 2019 (Appendix A to the covering report);
- Letter of Representation for the Council's Financial Statements for the year ended 31 March 2019 (Appendix B to the covering report);
- External Auditor's Planned Audit Fee for 2019/20 (Appendix C to the report).

The FSM advised Board Members that the audit of the Council's accounts for the period under review had yet to be completed by the External Auditor. Grant Thornton staff continued to work on the audit, and hoped to complete their work to enable the Council's Accounts for 2018/19 to be sign-off by the Strategic Director (Internal Services) and the Board Chairman by the statutory deadline of 31 July 2019 (Appendix B to the report refers).

This was particularly disappointing situation, given that it had been agreed with the External Auditors to bring forward the July 2019 Audit Board to mid-month, to enable sign-off of the Accounts in plenty of time before the statutory deadline.

Elizabeth Jackson, Audit Lead Grant Thornton, advised Members that the remaining audit work to be completed by her staff had not affected the conclusions in her Audit Findings Report (AFR), and her intention to give both an Unqualified Opinion on the Council's Accounts and an Unqualified Value for Money Conclusion (Appendix A to the report – agenda p.15 refers). Ongoing audit work related to the Council's Financial Statements (Statement of Accounts), which required a higher quality and level of audit work due to demands from the Auditors regulators.

She referred Members to the following additional points as set-out in the AFR:

- **Audit Adjustment:** One adjustment had been made for a double counted Council property (AFR p.19 agenda p.31);
- **Pooled Funds:** One new issue had arisen, relating to the Council's accounting policy for assessing the value of pooled funds, following implementation of the new International Financial Reporting Standard 9 (IFRS 9) for such funds. At present, Grant Thornton did not agree with the Council's interpretation of IFRS 9 [an interpretation which other

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Councils shared] and as a consequence, the External Auditor was not able to issue an Audit Opinion at this stage. Discussions would continue between the Council and Grant Thornton, with the outcome reported to the Board as required. The Ministry of Housing, Communities & Local Government (MHC&LG) had set Councils a 5 year override to establish their treatment of pooled funds following the advent of IFRS 9. In this context, Members were advised that unless/until a pooled fund was 'realised', there was no financial impact on a Council in terms of income. Should the divergence of opinion between the Council and Grant Thornton regarding IFRS 9 remain unresolved on 31 July 2019, the External Auditor would issue a 'Qualified Opinion' with an appropriate IFRS 9 'comment', to enable the Council's Accounts for 2018-19 to be signed-off under delegated authority from the Audit Board (Appendix A report p.8 agenda p.20 refers);

- **'Financial Statements'**: A decision had now issued from the National Audit Office (NAO) regarding the 'McCloud' ruling re age discrimination in respect of pensions. An opinion had been sought from the Council's actuaries, who had judged that the NAO ruling would *not* impact significantly on the Council's pension scheme as the estimate for error was low. This had enabled the External Auditor to issue an Unqualified Opinion in relation to the Council's Accounts (AFR p.4 agenda p.16);
- **Audit Fees**: These had been previously calculated by Grant Thornton to remain unchanged over a five year period. However, the additional work that had been required regarding property (re)valuations, might attract a slight increase in fees for the period under review (AFR p.21 agenda p.33).

### RESOLVED:

1. That Members welcome the External Auditor's intention to issue an Unqualified Opinion on both the Financial Statements and Value for Money Conclusion (as set out in Appendix A to the report), subject to reaching agreement on the IFRS9 issue highlighted above;
2. That Members approve the Letter of Representation attached at Appendix B to the report;
3. That Members note the External Auditor's proposed audit fee for 2019/20 (attached at Appendix C to the report).

## 7. COUNTER FRAUD & COMPLIANCE TEAM ANNUAL REPORT 2018/19

The report from the Counter Fraud & Compliance Manager (CFCM) presented at Appendix A for Member's consideration, highlighted the work that the Counter Fraud & Compliance Team had undertaken in the year ending 31 March 2019.

The CFCM highlighted the following key areas in his report for Members:

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- **Monetary Savings 2018/19** [table agenda p. 51 refers]: The work of the Team in the period under review had saved the Council a combined total of **£183,729** in Council Tax Single Person Discounts/Council Tax Reduction Claims and Council Tax Exemptions. This was the highest amount saved in the three year life of the Team to date;
- **Business Rates** [table agenda p.50 refers]: Business Rates represented the largest growth area in the Team's work, with the Council issuing some **£73M** worth of Business Rates bills in the period under review. The Fraud and Compliance Team continued to work closely with the Business Rates Team to identify businesses who had failed to register to pay rates, or were claiming Small Business Rate Relief, but were not entitled to such a reduction. Some **£129K** additional tax had been charged to businesses in the period under review, as a result of the this joint initiative;
- **Team role within Revenues and Benefits Joint Service:** The Counter Fraud & Compliance Team had been purposely (co) located within the Revenues & Benefit Department, because of the value of discounts, exemptions, reductions and allowances given by the various teams within that Joint Service, which far exceeded any of those given by any other Department in the Council. The specific role of the Counter Fraud & Compliance Team was to keep discounts and reliefs within the Revenues & Benefits Department as low as possible, given that the Service allowed some **£16M** worth of discounts and reliefs in the period under review.

In response to a specific question from the Chairman, the CFCM confirmed that a sympathetic approach was adopted by the Authority in respect of bills raised, with a staged recovery policy adopted for the reclamation of unpaid debt. All options were considered by the Team to ensure the maximum amount of business rates were recovered/paid by offending parties.

**RESOLVED:**

1. That Members note the work undertaken by the Counter Fraud & Compliance Team in 2018/19 as set out in detail in Appendix A to the report.

**8. ANNUAL GOVERNANCE STATEMENT (AGS) 2018/19**

The report from the Financial Services Manager (FSM) considered the governance arrangements and the system of internal control which had operated during the 2018/19 financial cycle, and the review of those arrangements that had taken place.

The FSM reminded Board Members that the Council was responsible for ensuring that its business was conducted in accordance with the law and proper standards and that public money was safeguarded and properly accounted for. In discharging this overall responsibility, the Council had to ensure that it had good governance arrangements in place and an effective internal system of control.

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The Annual Governance Statement for the period 1 April 2018 to 31 March 2019 (Appendix A to the report) set out in detail for Members how those joint objectives had been achieved for the period under review [agenda pages 55-63 refer]. Appendix B to the report comprised the Governance Action Plan 2018-19, which included a flow chart [agenda p.68 refers] of the 7 Core Principals which guided the Council's annual action plan process, set against the standards in its adopted '*Code of Corporate Governance*'. That process culminated in the formation of the Consolidated Governance Action Plan for 2019-20 [agenda pages 74-75 refer]. Appendix C to the report comprised the Governance Action Plan 2018-19 Progress Review, which looked back at the period under review.

Members were asked to note the review of the Council's Corporate Governance arrangements as set out in the report, and approve the Annual Governance Statement 2018/19 attached as Appendix A to the report for inclusion in the Annual Statement of Accounts [Min. No. 9 refers], together with the Consolidated Governance Action Plan 2019-20 as set out in Appendix B to the report.

### RESOLVED:

1. That Members note the review of the Council's Corporate Governance arrangements as set out in the report;
2. That Members approve the Annual Governance Statement 2018/19 attached as Appendix A to the report for inclusion in the Annual Statement of Accounts;
3. That Members approve the Consolidated Governance Action Plan 2019-20 as set out in Appendix B to the report.

## 9. FINANCIAL STATEMENTS (STATEMENT OF ACCOUNTS) 2018/19

The report from the Financial Services Manager (FSM) presented the Council's Statement of Accounts for the period 1 April 2018 to 31 March 2019 (attached as Appendix A to the report). He advised Members of two changes to the published agenda papers:

- (i) The ongoing audit of the Council's 2018/19 accounts by the External Auditor [Min. No. 6 refers], required a re-wording of the report's Recommendation to: '*That Members consider and approve the Statements of Accounts 2018/19 for publication, subject to any changes from the ongoing audit being agreed by the Strategic Director (Internal Services), in consultation with the Audit Board Chairman*';
- (ii) Incorrect figures in Note 22 of the Statement of Accounts regarding – *Operating Activities (Cash Flow Statement)* [agenda p.164], had required an errata sheet be produced and tabled for Members information that evening.

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The FSM reminded Members that the Statement of Accounts was prepared in accordance with '*proper accounting practice*', as contained in the various rules issued by the Accounting Standards Board (ASB), and the Chartered Institute of Public Finance and Accounting (CIPFA) Code of Practice for Local Authority Accounting. In addition, the Council had to also adhere to statutory regulations. The report and Appendix A set out how '*proper accounting practice*' and the appropriate statutory regulations had been reconciled, to produce the Council's Financial Statements (Statement of Accounts) 2018/19.

As previously advised by the External Auditor in her Audit Findings Report [Min. No. 6 refers]; the main development for Members to note in the period under review had been the adoption of new International Financial Reporting Standard 9 (IFRS9) Instruments, which dealt with the categorisation and subsequent accounting of financial instruments. A particular issue arising from the standard is the treatment of '*Pooled Funds*'.

The Council's Accounts treated all such '*Pooled Funds*' as Fair Value through Profit and Loss, which meant that movements in the value of these investments affected the surplus or deficit on Service figures. Temporary (5 year) regulations brought in by the Ministry of Housing, Communities & Local Government (MHC&LG) to deal with the changes introduced by IFRS9, enabled any changes in the value of '*Pooled Funds*' to be reversed through the Movement in Reserves Statement, so that the Reserves (the Council's tax setting position) remained unaffected.

The Council had sought and received legal advice that it could protect the taxpayer from unrealised fluctuations in the values its funds, by electing and categorising the new IFRS Instruments as Fair Value through Comprehensive income. The External Auditors [Grant Thornton UK] did not agree with the Council's legal advice, and consequently, the Accounts as stated in Appendix A to the report, categorised all funds as fair value through Profit and Loss. Discussions with the External Auditors continued over this policy interpretation, and the outcome would be reported in a future report to the Board if required.

The FSM highlighted the following specific points for Members in the 2018/19 Statement of Accounts:

- **Expenditure and Funding Analysis (EFA)** [agenda p. 114]: these figures compared the statutory position in column 1 with the accounting position in column 3. This showed that on a statutory basis (the most important measure) that the net cost of Council Services was **£11.584M**, and that after other income and expenditure was considered, a surplus of **£7.053M** had been achieved. This surplus was further broken down in the **Movement in Reserves Statement (MIRS)** between **£7.659M** for the General Fund and a deficit of **£606,000** for the Housing Reserves Account (agenda p.110);
- **Comprehensive Income and Expenditure Statement** [agenda p. 109]: this showed an accounting surplus on the Provision of Services of **£17.022M** on a comprehensive income and expenditure of **£30.107M** which matched the EFA. Some **£7M** had been moved to Useable Reserves to give a UR balance of some **£23M**;

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- **Cash Flow Statement (CFS)** [agenda p.113]: The CFS showed the changes in cash and cash equivalents of the Council during the period under review. Capital accounting was kept separate from charges to Council Tax payers;
- **Balance Sheet** [agenda p.112]: This showed the assets and liabilities of the Council at **31 March 2019**;
- **Housing Revenue Account (HRA)** [agenda p.189]; This was kept separate from the General Fund by statute, to ensure that monies from Council rents were not used to fund other Council activities, or monies from other Council activities were used to subsidise Council rents and other housing initiatives.

In conclusion, the FSM advised the Board that the outturn, compared to budget, was formally reported to Cabinet.

In response to subsequent questions from Members the FSM confirmed the following points:

- **Contributions to Collection Fund Surpluses and Deficits** [agenda p.199]: These were paid to precepting authorities monthly, based on estimates taken over a 2 year period;
- **Reserves Formula**: General Reserves covered all risks up to **£2.5M** and fluctuated upwards and downwards. Earmarked Reserves were for more specific risk and were estimated annually.

In response to a specific question from the Chairman, the External Auditor confirmed that Grant Thornton did undertake an audit of the Council's Reserves, to ensure that they were spent according to plan. That audit [of the Council's Reserves] also formed part of the External Auditor's Value for Money Conclusion.

### RESOLVED:

1. That Members approve the Council's Financial Statements (Statement of Accounts) 2018/19 for publication, subject to any changes arising from the ongoing audit by Grant Thornton UK (External Auditors), being agreed by the Strategic Director (Internal Services), in consultation with the Chairman of the Audit Board.

## 10. INTERNAL AUDIT ANNUAL OPINION (JULY 2019)

The report from the Audit Manager (Chief Audit Executive) asked Members to note the Internal Audit Annual Opinion (July 2019) attached as Appendix A to the report, on the effectiveness of the Council's internal control, governance and risk management arrangements, as required under Public Sector Internal Audit Standards.

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The Chairman confirmed that all Members had received a copy of Appendix A, which had been published separately, after the agenda had been issued. He also advised, for the particular benefit of new Members, that the Board could request all relevant background papers to any of the audits summarised in the July 2019 Opinion, and future reports to the Board.

The Audit Manager emphasised the importance of the relationship between the Audit Board and his Internal Audit team, and the independence of the IA team from all other Council Officers, as enshrined in the Internal Audit Charter.

He advised Members that the IA Annual Opinion was mandatory and completed in accordance with professional standards. The Opinion was used to inform the Council's Annual Governance Statement, which in turn supported the Council's Financial Statements. He also set out the role of IA as an internal service, which looked at the business and key risks for the Council. In contrast to the role of the External Auditor [Grant Thornton UK], was to look at the Council's Financial Statements. He drew the following key points in the July 2019 Opinion to Members attention:

- The **Audit Plan 2018/19** [Opinion p.5] summarised the audit projects to be delivered, with a resource plan showing the total number of days allocated to the Plan (**412**) most of which had been utilised;
- **Audit Findings** were summarised in the table on p.6 of the Opinion, with **13** audit projects delivered and a further **4 being wrapped-up**;
- **Audit Summaries** [pages 7-13] revealed *no High Risk* (Red) issues or significant findings. Full papers were available to the Board for all audit projects summarised in the Opinion;
- **Audit Actions** [p.14]; The IA team continued to experience positive engagement with and commitment from Management, to implement agreed actions identified from the work of the Team;
- **Client Satisfaction** [p.15]; Client feedback during 2018/19 had been very positive, and helped to improve the Council's overall operation;
- **Governance** issues for the Council and the expanded role played by IA in meeting them, were set out in p.17;
- **Risk Management** was addressed on p.18 with no issues noted;
- Details of a **Quality Improvement Programme** were set out on p.19;
- **Performance**: new service indicators had been developed to measure the performance of the Internal Audit Partnership as a whole, for the period **January – March 2019**. In addition to performance, the indicators monitored quality improvement, compliance with Standards, and training & development, as set out in the table on p.20 of the Opinion. One particular indicator ('*Conformance with Standards*') had only been used internally since December 2018, and would be used to inform a self-assessment exercise by the IA Manager over the summer, with the outcome reported to the Board in October. That exercise would be a precursor to the next External Quality Assessment (EQA) of the Council due in 2020.

RESOLVED:

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1. That Members note the Annual Audit Opinion attached as Appendix A to the report.

### 11. INTERNAL AUDIT UPDATE REPORT (JULY 2019)

The covering report from the Internal Audit Manager (Chief Audit Executive) attached at Appendix A for members to note, the Internal Audit Update Report (July 2019).

The July 2019 Update report provided the Board with an update on the work of the Audit Partnership, including Internal Audit activity, service developments and progress towards the delivery of the 2019/20 Audit Plan. The report also included a breakdown of how Internal Audit resources had been deployed in the year to date (April – June 2019).

The IA Manager advised the Board that the change and improvement work undertaken internally since August 2018 had impacted on the overall 2018/19 performance of the team, resulting in a slower start to 2019/20 than anticipated. The picture of how the IA team was progressing overall, would become clearer following his next report to the Board in October. For the benefit of new Members, he added the following specific comments to give areas of the report greater context:

- p.220 – his restructure of the IA team was non-chargeable work and was nearing completion;
- p.221 – the Audit Schedule 2019/20 set out in table form, was a snapshot of the new work to be undertaken over the next quarter and would be updated for the Board in October, and for each subsequent quarterly Board meeting;
- p.224 – the table recorded outstanding audit activity, colour coded to give a 'risk' grading, with the Team concentrating its work on Medium/High 'risk' work. Management was responsible for the implementation of agreed audit findings, and Members could request their appearance before the Board as necessary;
- p.227 – provided an update on the progress made to date against the objectives set in the secondment of the Audit Manager (Chief Audit Executive) from Mid Kent Audit. In January 2019 the secondment had been extended to 31 March 2020;
- p. 228 – the restructure of the Audit Partnership [with Sevenoaks Council] was almost complete. The IA team had not been fully resourced for some 2 years [in terms of staff] but it was hoped it would be fully resourced by October 2019. The re-structuring process had meant carrying existing staff vacancies, until the process was complete.

The Chairman added, in further clarification for new Members, that the IA Manager had been brought in to assess the previous IA structure and agree a new one.

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RESOLVED:

1. That Members note the Internal Audit Update Report (July 2019) attached as Appendix A to the covering report.

**12. SELECTIVE INVOICE CHECKS**

For the benefit of new Board Members, the Audit Manager explained the background to the Council's random invoice checking exercise, which was unique to Dartford, in his experience of local government audit and accounting in Kent. The selective invoice checking exercise enabled the Board to become directly involved in an audit process, whilst also ensuring that all Council Officers responsible for purchasing goods, materials and services were subject to random scrutiny over their adherence to proper purchasing procedures at any time.

At the March 2019 meeting of the Board, Members selected 5 (five) creditor payments for checking by Internal Audit. The report advised the outcome of that exercise, which was that all 5 creditor payments selected had been made appropriately and in compliance with Council procedures.

The Chairman supported the Audit Manager in his view of the selective invoice exercise which he deemed to be an interesting tool which made all Council Officers subject to be checked over their purchasing actions.

RESOLVED:

1. That Members note the contents of the report;
2. That Members select a further 5 (five) creditor payments for checking by Internal Audit and that the outcome of that exercise be reported to the next meeting of the Board in October 2019.

**13. MEMBER DEVELOPMENT PROPOSAL**

The report from the Audit Manager attached at Appendix A, a Member Development Proposal for Board Members to consider.

Members were advised that the Audit Board performed an important function and had a wide range of duties and that it was important that Members felt fully supported by Officers in their work. The proposal for the delivery of training was built on good practice, designed to provide a good foundation to the Board's work.

The Chairman proposed that training for Members be developed in 'bite-sized' sessions of between 20 to 30 minutes, prior to each meeting of the Board, commencing in October 2019. Topics he favoured for inclusion in that initial training as set out in the proposed programme [Appendix A agenda p.250] were:

- Internal Audit & Audit Standards (October 2019)
- Risk Management (January 2020);
- Government Finance (March 2020);

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- Role of the External Auditors (July 2020)

It was confirmed that the training material would be sent to Members in advance of Board meetings, and over time form a library of instruction for Board Members.

### RESOLVED:

1. That Members approve the programme for Member development attached as Appendix A to the report;
2. That Members agree the topics to be delivered prior to future meetings of the Board as minuted above.

The meeting closed at 8.30 pm

Councillor D A Hammock  
CHAIRMAN

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