

DARTFORD BOROUGH COUNCIL

AUDIT BOARD

MINUTES of the meeting of the Audit Board held on Wednesday 27 March 2019 at 7.00 pm.

PRESENT: Councillor D A Hammock (Chairman)
Councillor A Bardoe (Vice-Chairman)
Councillor J S Hawkes
Councillor J A Hayes
Councillor A R Lloyd

ABSENT: Councillor Mrs J A Ozog
Councillor D Swinerd

IN ATTENDANCE: Tim Sams – Financial Services Manager
Russell – Audit Manager
Heppleston
Elizabeth - Grant Thornton UK
Jackson

36. APOLOGIES FOR ABSENCE.

Apologies for absence were received on behalf of Councillors J A Ozog and D Swinerd and one for lateness from Cllr. J S Hawkes.

The Chairman welcomed Elizabeth Jackson from the Council's External Auditors Grant Thornton, and noted the presence of the Financial Services and Internal Audit Managers, and advised that the Strategic Director (Internal Services) had a prior engagement that evening.

37. DECLARATIONS OF INTEREST.

There were no declarations of interest made by Members, including by Councillor Hawkes on joining the proceedings.

38. CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 23 JANUARY 2019

RESOLVED:

1. That the Minutes of the Audit Board meeting held on 23 January 2019 be confirmed as accurate.

39. URGENT ITEMS

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

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40. REFERENCES FROM OTHER COMMITTEES (IF ANY)

There were no references from other Committees.

41. REPORTS FROM EXTERNAL AUDITOR - MARCH 2019

The covering report from the Financial Services Manager (FSM) enclosed two reports from the External Auditor Grant Thornton UK for consideration by the Board:

- The Audit Plan for the Council for the year ending 31 March 2019 (attached as Appendix A to the report);
- The External Auditor's 2017/18 Certification Letter for the year ending 31 March 2018 (attached as Appendix B to the report).

Attached as Appendix C to the FSM's report was a letter from the External Auditor addressed to the Chairman of the Audit Board which set out how the Audit Board gained assurance from management. Members were advised that the FSM was co-ordinating a comprehensive reply to the letter for the Chairman's signature.

Elizabeth Jackson (Engagement Lead) Grant Thornton advised the Board of the following headlines in her External Audit Plan for the Council's accounts in the year to 31 March 2019 (Appendix A to the report).

Three (3) Significant Risks had been identified by the External Auditor (Appendix A - p.5/6 agenda p.13/14) but those risks were standard and applied to all Councils:

- **Management Override of Controls** - this was a non-rebuttable presumed risk under ISA (UK) 240: that Council(s) faced external scrutiny of its spending, and that such scrutiny could potentially place management under undue pressure in terms of how they reported performance in particular journals, management estimates and transactions outside the course of business, and was therefore classed as a significant risk to the Council. Grant Thornton, as External Auditors, would evaluate the design effectiveness of management controls in these areas and recommend as necessary;
- **Valuation of Council Property, Plant and Equipment** - the Council revalued its land and buildings on a rolling quinquennial (5 year) basis to ensure that *carrying* value was not different from *current* value. This represented a significant estimate by management in the Council's financial statements, and the External Auditors had identified land and building revaluations and impairments as a risk requiring special audit consideration. Grant Thornton would review management's processes and assumptions in these areas, consider the competence, expertise and objectivity of the Council's valuers, and test the valuations with their own valuation professionals;

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- **Valuation of the Pension Fund net Liability** – the Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represented a significant estimate in the financial statements given the size and numbers involved, and the sensitivity of the estimate to change in key assumptions. The External Auditor had therefore identified the Council's pension net liability as a significant risk and would update their understanding of the processes and controls currently put in place by management and ensure that the Council's pension fund net liability was not materially misstated and evaluate the design of the associated controls.

Materiality for Planning Purposes (Appendix A p.8 agenda p.16)

Members were advised that the External Auditor had determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year, using the same benchmark as the previous year. Materiality at the planning stage of their audit of the Council was £1.26m in total (£1.28m in previous year) which equated to 2% of the Council's forecast gross expenditure for the year ended 31 March 2019. This was the same % total as the previous year. If during the course of the audit Grant Thornton became aware of facts and circumstances that would have caused the External Auditor to have made a different determination of planning materiality, these factors and outcomes would be brought to the attention of the Board. Any individual misstatements of materiality below the £63k threshold would not be reported to the Board.

Value for Money (VfM) Arrangements (Appendix A p.9 agenda p.17)

The UK leaving the European Union (Brexit) on 29 March 2019 [when the report was written] posed a significant VfM risk for the Council and all local authorities, in terms of national and local implications from Brexit impacting on the working of the Council. The External Auditors were satisfied that the Council was working effectively with Kent County Council, neighbouring authorities and other partners, to mitigate the effects of Brexit as and when it occurred.

Audit Fee (Appendix A p.10 agenda p.18)

The Planned Audit Fee would not be less than **£35,732** a significant reduction of **23%** from the previous year (**£46,405**) which reflected the recent procurement exercise by Public Sector Audit Appointments which had generated savings for the public sector.

Certification Letter for Year ended 31 March 2018 (Appendix B agenda pages 25-27)

The External Auditor's letter, addressed to the Strategic Director (Internal Services) in her role as Section 151 Officer, set out details of the Auditor's certification work in respect of the Council's Housing Benefit subsidy claim

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to the Department of Work and Pensions (DWP) for the year ended 31 March 2018.

The Auditor had identified several issues (set out in tables A and B attached to the letter) plus two errors which had recurred from the 2016/17 certification work undertaken by Grant Thornton. However, the Auditor stressed that the financial impact on the Council's claim (as reported to the DWP) was relatively insignificant, compared to the total subsidy received by the Council from the Department.

Members were advised that as a result of the errors identified, the External Auditor had issued a qualified assessment of the Council's Claim, but this was not unusual. All Kent authorities had received a similarly qualified letter from their Auditors regarding their Housing Benefit Subsidy claims to the DWP, a pattern that was repeated across 93% of all local authorities in England.

RESOLVED:

1. That Members note the contents of the plan for the audit of the Council's 2018/19 accounts from the External Auditor, as set out in Appendix A to the FSM's covering report;
2. That Members note the contents of the External Auditor's 2017/18 Certification Letter attached as Appendix B to the covering report;
3. That Members note the letter from the External Auditor attached as Appendix C to the report and the proposed response.

42. INTERNAL AUDIT UPDATE REPORT - MARCH 2019

The Internal Audit Update Report (March 2019) and attached Appendix A from the Audit Manager, provided the Board with an update on the progress made to date on the delivery of the 2018/19 Internal Audit Plan. The report also provided a broader update on the internal audit service since the last report to the Board in January 2019.

The Audit Manager advised Members that his March 2019 Update built on his previous reports to the Board in terms of style, and detailed progress made to the end of February 2019 on the delivery of the 2018/19 Internal Audit Plan, with a full Annual report due to be presented to the Board in July 2019. The aim was now to complete all substantive work by the end of April (usually March) given the complexity of certain issues this year. He added the following comments in relation to Appendix A as published in the agenda papers:

- **Audit Work – Projects Completed** [table agenda p.38]: since publication of the report the fieldwork for Audit projects 11(Business Rates) and 13 (Payroll) had been completed and the fieldwork for project 14 (GDPR) and 16 (Homelessness Reduction Act) had commenced and were on track to be completed;

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- **Follow-Up Audit Actions** [diagram agenda p.42]: the diagram set out the follow-up process, which had been implemented to ensure that all actions were tracked and left or missed;
- **Audit Actions** [agenda p. 44]: Based on the results of current follow-up work **11** actions were 'live' and being monitored and the results would be advised to the Board as they fell due;
- **Closed Actions** [agenda p. 45]: Following careful consideration of the progress made to date over the last 2 years, it had been agreed with the service to close the following two particular actions:
 - (i) **Human Resources – Policies**: 10 out of 33 policies had been updated, a further 8 were currently being reviewed and the remainder would be updated during 2019/20;
 - (ii) **Museum**: All 15,000 card records had been transferred online and continued to be catalogued, a process which was expected to take some 15 years.
- **Service Update** [agenda p.47]: In January 2019 the Dartford & Sevenoaks Audit Partnership Board agreed to extend the Audit Manager's (Chief Audit Executive) secondment from Mid Kent Audit from **1 April 2019 to 31 March 2020**.

In response to subsequent questions from the Chairman concerning the '**REMOVED**' Business Continuity project, the Audit Manager provided assurance that the follow-up work had been undertaken. Also that the assurance rating in respect of the **Museum** [p.45] equated to a '**Satisfactory Assurance**' in previous Internal Audit terminology.

RESOLVED:

That Members note the contents of the Internal Audit Progress Report (March 2019) attached as Appendix A to the report.

43. INTERNAL AUDIT PLAN 2019/20

In accordance with Public Sector Internal Audit Standards (PSIAS) the Council's Audit Service was required to establish a risk-based plan to determine its priorities. The report from the Audit Manager detailed the audit planning process, the outcomes of planning consultations, and the resources necessary to deliver the Plan (attached as Appendix A to the report). The Audit Board was required, through its Terms of Reference, to consider and approve the Plan each year.

The Audit Manager advised Members that following his appointment in August 2018 he had reported to the Board on a regular basis concerning the ongoing changes he had identified to improve and enhance the Audit Service. The Audit Plan 2019/20 (attached as Appendix A to the report) set out in summary, the steps planned to review and restructure the Service in early 2019/20 in addition to setting a longer-term strategy. Members would continue to be updated as that restructuring work progressed.

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Following completion, the strategy encompassing all elements of the 'Audit Universe' would go to the Board for approval.

He referred Members to the following specific sections of the 2019/20 Internal Audit Plan:

- **Audit Days 2019/20** [pie chart and table agenda pages 57/58 refer]: the Dartford and Sevenoaks Audit Partnership had access to 850 chargeable audit days for 2019/20 split on a 50:50 basis between Dartford and Sevenoaks Councils. This was an increase of 26 audit days over the 2018/19 Plan and included a new Advisory & Consultancy activity pot [table p.57] to cater for emergencies and increase flexibility. The resource plan also covered the ongoing vacancies within the current team, and factored in the potential disruption to service during the period re-structuring the service. The re-structuring process, and subsequent recruitment into vacancies was expected to be completed by September 2019;
- **Audit Plan 2019/20** [table agenda pages 60-62 refer]: the table set out the audit plan for 2019/20 categorised into 3 distinct types of assurance **Finance, Governance** and **Risk-Based**. Details of a 4th **IT** stream were awaited from a consultant.

The Audit Manager emphasised the importance of an effective and positive two way conversation between the Audit Board and the Audit Service, and confirmed the following points in response to specific questions from Members:

- The breakdown of audit days between Dartford and Sevenoaks [table p.57] differed in the Advisory & Consultancy Activity by 24 'extra' days for Sevenoaks but no audits were undertaken on those days;
- The totals in the table for Dartford for non-audit days and projects contained a slight error and would be re-issued following the meeting.

The Shadow Leader of the Council (attending as a Board Member) expressed his satisfaction with the 2019/20 Internal Audit Plan and the modernisation of the audit process it represented, as summarised in the 'Hot Topics/Audit Partnership Response' table [agenda p.56]. The topic headings for 'Workforce Culture' and 'Sustainability: Environmental & Social Ethics' were particularly welcome in his view. He asked for examples of this new approach in the 2019/20 Plan.

The Audit Manager informed Members that the list of new 'Hot Topics' had been garnered through consultation with London and Kent Audit Groups, professional bodies such as CIPFA and a review of other published audit plans in the South East. The aim was to look forward rather than backwards, and to ensure the Council had the right skills to address the new challenges, including 'Communication: Brand and Reputation. At present, the Audit Partnership's response to meeting the new 'Hot Topics' was aspirational, with 'brand protection' undertaken through the Council's Risk-Management

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approach, not solely through assurance rated work. Regarding 'Workplace Culture' this would be 'piloted' in Sevenoaks first, given that Council's culture-centric profile. A framework would then be established for the work at Dartford. The Board would be kept updated, and had a vital role to play in the Council's switch to incorporate workplace culture and environmental values into its audit work.

The Chairman advised that future training for the Audit Board would be more focussed via the Audit Manager, including fundamental training for new Members following the May elections, including the possibility of a new Board Chairman. He asked that a paper on proposed Member training be submitted to the new Board in July 2019, including the role of the External Auditor Grant Thornton UK in the Board's proceedings.

RESOLVED:

1. That Members approve the Internal Audit Plan 2019/20 as presented in Appendix A in the agenda;
2. That Members note the future work proposed to review the Audit Partnership;
3. That a paper on future training for Board Members be presented to the Board at its next meeting in July 2019, including the role of the External Auditor.

44. INTERNAL AUDIT CHARTER (MARCH 2019)

The report from the Audit Manager, attached at Appendix A for the Board's approval, the Internal Audit Charter (March 2019). The Charter set out the purpose, authority and responsibility of the Audit Service and had been fully updated and refreshed to ensure compliance with the recommendations of the 2017 External Quality Assessment of the Internal Audit Service by PricewaterhouseCoopers (PWC) and was a Public Sector Internal Audit Standards (PSIAS) requirement.

The Audit Manager advised Members that the terms of the Charter protected the independence of the Internal Audit service and its right to report directly to the Board in addition to having direct access to the Chairman of the Board and the Managing Director of the Council.

Members were advised that the Charter comprised sets of ethical frameworks, auditor competences, skills and roles in line with the Council's Internal Audit Plan [Min. No. 43 refers] and the wider role of Internal Audit in non-audit work. The Charter had been considered and supported by the Senior Management Team for the Council prior to being presented to the Board for approval. The Charter protected the role and independence of the Internal Audit service, but also included wider governance roles for the Service. The safeguards in the Charter allowed the Service to undertake that wider role, but still maintain its independence.

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In response to questions from Members, the Audit Manager confirmed that he was satisfied with the terms of Dartford's Internal Audit Charter which went into greater detail than that of other authorities, and had benefited from the input of the Managing Director, the Strategic Director (Internal Services) & Section 151 Officer, and the Financial Services Manager in addition to his own input.

RESOLVED:

1. That Members approve the Internal Audit Charter (March 2019) attached as Appendix A to the report.

45. SELECTIVE INVOICE CHECKS

At the January 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.

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 the next meeting of the Board in July 2019.

46. CHAIRMAN'S THANKS

The Chairman expressed his thanks to all Members, Officers and the External Auditors Grant Thornton for their contributions to Audit Board proceedings, at the conclusion of the final meeting of the Board prior to the Borough and Parish Council elections on 2 May 2019.

He expressed his particular thanks to the Vice-Chairman, who was not standing for re-election in May, for all his support and insight into the Council's financial affairs during his active participation in the Board's proceedings over several years. He also paid tribute to the Shadow Leader of the Council and Members of his Group, for their contribution to the work of the Board and wished all Members the very best for the future, whether they were returned to office or not.

The Shadow Leader of the Council thanked the Chairman for his kind comments and expressed the hope that he and Members of this Group would continue to participate in the Board's proceedings following the May elections.

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The meeting closed at 7.48 pm

Councillor D A Hammock
CHAIRMAN