

DARTFORD BOROUGH COUNCIL

AUDIT BOARD

MINUTES of the meeting of the Audit Board held on Wednesday 22 January 2020 at 7.00 pm.

PRESENT: Councillor D A Hammock (Chairman)
Councillor Mrs J A Ozog (Vice-Chairman)
Councillor S N Gosine
Councillor P M Harman
Councillor A R Lloyd

ABSENT: Councillor D Butler-Ruhle
Councillor R Gosine

IN ATTENDANCE: Sarah Martin – Strategic Director (Internal Services)
Tim Sams – Financial Services Manager
Frankie Smith – Lead Auditor (Chief Audit Executive)
Jo Herrington – Lead Auditor
Ajiab Benning – Auditor
Russell – Deputy Head of Audit Partnership,
Heppleston Mid Kent Audit

26. APOLOGIES FOR ABSENCE.

Apologies for absence were received from Councillors Butler-Rhule and Mrs R Gosine and Mrs Liz Jackson Grant Thornton UK (External Auditors).

The Chairman gave a special welcome to Russell Heppleston, Deputy Head of Audit Partnership, Mid Kent Audit, who was attending the Board in a guest capacity to present his final reports to Members, following the conclusion of his secondment to the Council as Internal Audit Manager (Chief Audit Executive) earlier in January.

The Chairman also noted and welcomed the presence of the Strategic Director (Internal Services), the Financial Services Manager, the newly appointed Lead Auditors, and the Audit Officer.

27. DECLARATIONS OF INTEREST.

There were no declarations of interest.

28. CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 23 OCTOBER 2019

RESOLVED:

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

29. URGENT ITEMS

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

30. REFERENCES FROM OTHER COMMITTEES (IF ANY)

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

31. MEMBER DEVELOPMENT TRAINING - RISK MANAGEMENT

As agreed by Members on 17 July 2019 [Min. No 13 refers], the Board received a final briefing from Russell Heppleston (Mid Kent Audit) in his former role as the Council's Internal Audit Manager, on the subject of 'Risk Management'.

Principal areas covered in the briefing were:

- Introduction and Terminology
- The Risk Process
- Risk Issues
- The future

Introduction & Terminology

Members were advised that the briefing dealt with risk in the business sense (rather than health & safety) and could usefully be defined as '*An uncertain event that, if it occurred, had an effect on an objective*'.

Risk was directly related to all Council objectives, as set out in its published policy documents e.g. the Corporate Plan, Key Actions and Performance Indicators document, which were subject to regular monitoring reports - such as the Internal Audit Update report to the Board. The assessment of risk concentrated on three main areas:

- *Future focussed;*
- *Had a degree of uncertainty [when it occurred];*
- *Would impact on the achievement of objectives (positively* or negatively).*

* An example of *positive* risk was an opportunity, which if taken, could lead to a substantial reward for the authority in terms of revenue or services

Risk was measured in terms of **likelihood** and **impact**, and assessed in a matrix format underpinned by Risk Registers (the Risk Evaluation process). In

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this context, 'reputational risk' [suffered by a local authority through a failed initiative/process] was viewed as an 'impact' rather than a 'risk'.

Risk Management

This was the process by which the Council **identified, quantified and managed** the risks it faced as it sought to achieve its objectives, and was a pillar of good governance, and as such, fell within the remit of the Audit Board as outlined in the Board's Terms of Reference (ToRs), specifically para 20:

- *'To approve the Council's risk management framework* and oversee its application'.*

The Framework was defined as all measures used by the Council to capture, quantify and manage risk, and the Audit Board held a key role in approving its terms, and implementation by the Senior Management Team and all Council Officers.

Terminology

Commonly used terms employed to define risk and to describe associated work processes included:

- **Risk Universe:** All that could *realistically* occur – proportionality was vital in making these assessments in terms of the Council's activities, to ensure that any potential risks identified added value to the Council's risk management framework;
- **Risk Appetite:** Level of risk the Council is willing to seek in order to achieve its Objectives, as captured in its Risk Register;
- **Risk Tolerance:** Maximum level of risk that the Council will allow below the level of its maximum level of risk appetite (see above);
- **Impact:** How severely the Council would be affected if a risk was to materialise (including to its reputation);
- **Likelihood:** Consideration of how likely it was that a risk would occur – this was a matter of judgement, allied to objectivity.

Risk Management Process

Members were advised that this was a circulatory process, used across the Dartford & Sevenoaks Audit Partnership, which began with [the Council] identifying **Objectives** for all areas of policy and operation e.g. Corporate Objectives, Strategic Plan etc. followed by a sequential process of:

- **Risk Identification;**
- **Risk Evaluation;**
- **Risk Response & Action;** and
- **Monitoring & Reporting**

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Tools required to achieve a successful risk management process were a risk management framework document, underpinned by regular guidance and training of responsible officers and Members.

Risk Evaluation

Members were shown the Risk Evaluation matrix used by the Council. The matrix was calibrated from 1 (low risk) to 5 (high risk) to give greater depth and shade to the assessment process. The matrix was colour coded to signify the degree of risk; blue for levels 1 and 2 (low), green for levels 3 and 4 (medium) and orange for level 5 (medium high). The upper quartile of the matrix above the 'tolerance level', was shaded progressively red and black to signify unacceptably high risk.

Risks were assessed for impact and likelihood, and plotted on the matrix accordingly. This enabled Officers to identify those risks which fell above the Council's tolerance level, and to monitor their movement over time, as Officers took action to effectively address them. The matrix provided a 'snapshot' of the current level of an identified risk at a given time, acting as a 'front cover' to the relevant strategic or operational risk register associated with the area of Council operation.

Risk Impact

Members were shown a Risk Impact table which covered the Council's operations in the key areas of Finance, Service Delivery & Capability, Reputation, Legal & Regulatory and People & Culture. The table was graded 1 (minimal impact) to 5 (Critical impact) as defined for each key area respectively, in terms of financial loss; service delivery failure/loss; harm to public confidence or embarrassment [to the Council]; breaches of law, rules or governance; negative impact on workforce, culture or values.

In assessing the impact of risk, Members were advised of the need for Officers to avoid a 'group think' approach, which concentrated purely on the financial impact of risk, and neglected the wider aspects of risk to the Council's operation as detailed above.

Risk Levels

Members were advised of the three risk categories which affected the Council operations:

- **Strategic (Corporate) Risk** – by definition these risks were inherently more strategic in nature and carried a higher level of impact;
- **Operational Risk** – these risks were more directly linked with the day to day operation of services and were captured as part of the service planning process;
- **Emerging Risk** – risks that were on the horizon but too uncertain to quantify or define...risks on the radar.

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The Risk Radar

Members were given an analogy for future risk of a radar screen, formed of three concentric circles, illustrating the estimated major risk factors from 2019/20 and the following two financial years to 2021 and beyond.

In the current 2019/20 financial cycle, major risk factors were the *Impact of Brexit* (ongoing), *Business Rate Retention* and *Political Change*, with the latter also affecting the 2020/21 financial cycle, together with *Regeneration Projects* e.g. the continuing HS2 saga. Risk factors for the longer term included; *Aging Population/Workforce*, *Legislation Changes*, *Infrastructure and Advancing Technologies*.

Tools available to local authorities to anticipate and prepare for future risk factors included:

- **Horizon Scanning**
- **Risk Workshops**
- **Intelligence gathering**
- **Research**
- **Publications**
- **Professional papers**

Kent Local Government Picture

Members were advised that the most common themes of risk amongst Kent authorities were:

- **Cyber / ICT Security**
- **Financial Resilience / Uncertainty**
- **Capacity & Resources**

Most large organisations, including local authorities, identified their 'Top Ten' risks and managed their resources downwards to address them.

Risk Assurance

The Dartford & Sevenoaks Audit Partnership provided risk-based assurance to the Council via six key documents:

- **The Annual Internal Audit Plan (March)**
- **The Annual Internal Audit Opinion (July)**
- **Quarterly Internal Audit Updates (January, March, July, October)**

The Council's External Auditor Grant Thornton UK also provided risk assurance via its quarterly update reports to the Audit Board, which contained a Value for Money (VfM) Opinion element.

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Further risk assurance was provided by the Council's Governance Group, comprising the Managing Director, the Strategic Director (Internal Services) and Section 151 Officer and the Financial Services Manager. The Council also maintained Strategic and Operational Risk Registers and held monthly Managers meetings the outcomes of which were reported to the Senior Management Team, as part of the Council's Assurance Framework, agreed by the Audit Board on an annual basis.

Future Developments

The recruitment of a new Internal Audit Manager (Chief Audit Executive) to replace Russell Heppleston was a priority for the Partnership, with interviews for the position due to be held in early February. In the interim, Frankie Smith would assume the role of Interim Audit Manager and oversee the following proposed work activity for the ensuing **2020/21** financial year:

Quarter 1 – Review of Risk Framework

Quarter 2 – Update Risk Registers

Quarter 3 – Strategic Risk Refresh

Quarter 4 – Update to Audit Board

The Chairman thanked the former IAM for a very comprehensive and useful presentation and noted.

RESOLVED:

1. That Members note the contents of the briefing on Risk Management;
2. That Members receive a further tranche of training in March 2020 from the Financial Services Manager on the topic of '*Government Finance*' [Min No 13 refers].

32. REPORT FROM THE EXTERNAL AUDITOR

The Chairman confirmed that all Members had received a copy of the External Auditor's report (marked as 'To-Follow' in the main agenda papers), circulated subsequently as Appendix A to the covering report from the Financial Services Manager (FSM).

In the absence of any representatives from the Grant Thornton UK, the FSM summarised the External Auditor's report for Members which comprised two parts:

- **Appendix A – Audit Progress Report & Sector Update**
- **Appendix B – Assurance Letter to the Audit Board Chairman**

Members were advised that Appendix A comprised the usual update on the progress being made by the External Auditor with the Council's Finance Department, with further work due in January and March to complete the 2019/20 Deliverables (as summarised on pages 4/5 of the report). The report

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also contained a summary of the Redmond Review [September – December 2019] which would be covered in detail by the Strategic Director.

The FSM confirmed that he would be drafting the customary stock letter for the Chairman, in response to the External Auditor's letter at Appendix B, and noted the Chairman's request that the final letter be copied to all Audit Board Members for information.

Members were then briefed by the Strategic Director (Internal Services) on the implications for the Council of the Redmond Review, launched by the Government on 17 September 2019, under the leadership of Sir Tony Redmond (former President of CIPFA), and closed in December 2019 with a report due to be submitted to the Secretary of State in Summer 2020.

The Review had been commissioned by the Government following adverse publicity over the performance of Grant Thornton and Ernst Young accountancy firms, including their auditing of local authority accounts, of which only 65% across Kent had been completed by Grant Thornton by the sign-off deadline. In the case of Dartford Council, only 58% of the agreed accountancy work had been completed by Grant Thornton in 2018/19 to deadline, due in the main, to complex technical issues involved in the accounts process.

A significant outcome of the Review was likely to be the recommendation to appoint an External Regulatory body, to monitor the performance of external auditors, last undertaken by the Audit Commission up to 2010. A specific financial outcome for the Council, was a likely increase in External Auditor Fees, arising from recommended changes to the scope and emphasis of the work to be undertaken by external auditors in the future. At present, the emphasis was backward looking, rather than concentrating on the Value for Money (VfM) Conclusion, and increased checks on the pension funds and assets held by local authorities.

In response to specific questions from Members the Strategic Director confirmed that:

- Grant Thornton only had a few audit teams operating in Kent as a whole;
- GT would be concentrating on their NHS audit work first because of the deadlines involved;
- GT's audit team for Dartford had only comprised two auditors in 2018/19 and been subject to changes in personnel during the audit period. This had led to a disjointed performance and proved disruptive for the Council's Finance team in terms of continuity and GT's retained historical knowledge of the Council's accounts and practices.

RESOLVED:

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1. That note update report from the External Auditor, Grant Thornton, attached at Appendix A to the covering report from the Financial Services Manager;
2. That Members note the letter from Grant Thornton attached at Appendix B to the report;
3. That the Chairman's letter of response to Appendix B to copied to all Audit Board Members.

33. INTERNAL AUDIT UPDATE REPORT (JANUARY 2020)

The report from the former Internal Audit Manager (Chief Audit Executive) provided Members with a snapshot of activity undertaken and progress made in the Quarter 3 of the current 2019/20 financial year.

Members were advised that, following a restructure of the audit service, a period of recruitment and induction, progress of deployed Audit Days for the year [table agenda p.17] was lower than anticipated. However, the Internal Audit team was now up to strength, from a low of only 2 auditors for the first three quarters of the 2019/20 F.Y. to a full complement of 6 auditors. The time investment in 3 new staff members had inevitably led to a 'spike' in non-chargeable days, but it was expected to reverse this trend with a fully complimented team in the final Quarter of 2019/20 and the 1st Quarter of 2020/21.

To this end, the Board were asked to approve the Projects for the 1st Quarter of the 2020/21 Audit Plan now (spreadsheet - agenda p.20) for staff planning and resource purposes, in anticipation of the 2020/21 Audit Plan being formally presented to the Board on 22 April 2020 by Frankie Smith, in her role as Lead Auditor (Chief Audit Executive). Members were also asked to note two Agreed Deferrals for audit action (agenda p.28). The second deferred audit action to address the backlog on inspections for new premises food inspections, would be addressed and taken forward by the new IA Manager on his/her appointment. The new IA Manager would also be responsible for the early scoping work required for completion of the Council's External Quality Assessment (EQA) due to be presented to the Board in November 2020 (Service Update summary - agenda p.30 refers).

In response to a specific question from the Cabinet Portfolio Holder for Finance (attending in his Board capacity), the Strategic Director (Internal Services) confirmed that the risks associated with the activities of the Council's Treasury Management Panel in investing the Council's funds, were examined by the External Auditors as part of Grant Thornton's Value for Money (VfM) Conclusion exercise.

RESOLVED:

1. That Members note the Internal Audit Progress Report and updates attached as Appendix A to the report;
2. That Members agree the projects for Quarter 1 of the 2020/21 financial year as set out in Appendix A.

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34. SELECTIVE INVOICE CHECKS

Following the October meeting of the Board, the Chairman selected five creditor payments for checking. The report summarised the findings of that exercise and provided Members the opportunity to select five further payments for checking.

Paragraph 3.3. of the report advised Members of the new approach that had been adopted for the selection of payments from October 2019 whereby, a list of all payments made in the previous Quarter was supplied to Members for examination and selection, rather than by a single letter of the alphabet. This ensured that transactions tested were current.

RESOLVED:

1. That Members note the contents of the report and request any further explanations as required;
2. That Members select five further payments for checking by Internal Audit;
3. That the new Internal Audit 'Selective Invoice Checks' explanation sheet, provided to all Managers, be copied to all Members of the Council for their information.

35. CHAIRMAN'S THANKS

The Chairman took the opportunity to express his profound thanks to Russell Heppleston, for the significant transformation he had effected to the running of the Council's Internal Audit team, in his role as Internal Audit Manager (Chief Audit Executive), during his secondment from Mid Kent Audit from October 2018 to January 2020.

All Board Members and the Strategic Director (Internal Services) joined the Chairman in a vote of thanks and appreciation.

The meeting closed at 8.20 pm

Councillor D A Hammock
CHAIRMAN