

AUDIT AND GOVERNANCE COMMITTEE

Tuesday, 26 July 2016

Present: Councillor Horwood (Chairman)
Councillors Chapelard, Hamilton, Moore, Nuttall and Podbury, Independent Members
Mr Hedges, Mrs Hough, Mr Quigley and Mr Shiels,
and Parish/Town Councillors Coleman and Henshaw

Officers in Attendance: Rich Clarke (Head of Audit Partnership), Lee Colyer (Director of Finance and Corporate Services), Jane Fineman (Head of Finance and Procurement), Jane Lynch (Head of Planning Services), Ade Oyerinde (Grant Thornton) and Darren Wells (Grant Thornton)

APOLOGIES FOR ABSENCE

AG16/16 Apologies for absence were reported from Councillors Dawlings and Ms Palmer.

DECLARATIONS OF INTEREST

AG17/16 There were no declarations of interest made, within the provisions of the Code of Conduct for Members.

NOTIFICATION OF VISITING MEMBERS WISHING TO SPEAK (IN ACCORDANCE WITH COUNCIL PROCEDURE RULE 18)

AG18/16 There were no other members of the Council who had registered their wish to address the Committee, within the provisions of Council Meetings Procedure Rule 18.

MINUTES OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE DATED 28 JUNE 2016

AG19/16 The minutes of the meeting of the Audit and Governance Committee dated 28 June 2016 were submitted.

RESOLVED – That the minutes of the Audit and Governance Committee dated 28 June 2016 be approved as a correct record.

ANNUAL FINANCIAL REPORT AND AUDIT FINDINGS 2015/16

AG20/16 Further to minute AG10/16, Jane Fineman, the Head of Finance and Procurement, presented the draft Annual Financial Report for 2015/16. She reminded the Committee that the draft had been submitted to the 28 June meeting for member comment. Mrs Fineman added that there had been no changes to the 'statement of accounts' since then but that one section of the accompanying narrative report had been amended, to take account of a point raised at the last meeting, in respect of planning application determinations.

Mrs Fineman also drew attention to the 'Audit Findings Report', prepared by the authority's external auditors Grant Thornton. She advised that the auditors had given the authority an 'unqualified audit opinion' and had not identified any adjustments affecting the Council's reported financial position. Mrs Fineman added that this outcome represented a significant achievement

for the Borough Council, especially against the backdrop of completing the accounts two months early.

Mrs Fineman sought the Committee's approval to the draft Financial Report, adding that she hoped to have these published on the Council's website by the 31 July deadline.

Ade Oyerinde from Grant Thornton thanked Mrs Fineman and her team for their work and co-operation and added his congratulations for a successful outcome.

Mr Tony Quigley acknowledged the amendment made in the narrative report as a result of his concerns expressed at the last meeting. He also asked why the salary of the Head of Legal Partnership Service, if it fell within the band specified, was not included in the statement of accounts section.

Mrs Fineman advised that the post-holder was employed by Swale Borough Council, with Tunbridge Wells Borough Council meeting the relevant proportion of the costs; she added that the element of salary costs met by Tunbridge Wells was not within the required reporting band.

Councillor Podbury drew attention to paragraph 5.2 of the covering report, where it stated that the wording in the narrative report had been amended, as set out on page 5. She wondered whether the reference to this section should have been 'page 9'. Mrs Fineman advised that it was in fact page 5 of the Financial Report, but page 9 of the agenda papers, so both references were correct.

RESOLVED –

- (1) That Grant Thornton's Audit Findings Report, as set out in Appendix B of the report, be noted;
- (2) That the draft Statement of Accounts and the Annual Governance Statement, all contained within the draft Annual Financial Report for 2015/16, as set out in Appendix B of the report, be approved;
- (3) That the Chairman of the Committee and the Director of Finance and Corporate Services be authorised to sign a 'Letter of Representation' based on Appendix A of the Audit Findings Report; and
- (4) That a similar timetable be agreed for the approval of the Statement of Accounts and the Annual Governance Statement for the 2016/17 accounts by 31 July 2017 and a special meeting of the Committee be scheduled for this purpose.

STRATEGIC RISK REPORT

AG21/16 Rich Clarke, the Head of Audit Partnership, presented a risk management report, which described the authority's arrangements for managing strategic risk. The report provided an update on the evaluated threat level as well as the controls in place for each of the 10 risks identified.

Mr Clarke advised that Jane Lynch, the Head of Planning Services, had been invited to the meeting, in order to provide a detailed response to any

concerns members might have on the strategic risks for which she was the named, lead officer. From the appendix attached to the report, Mr Clarke advised that this was principally risk scenario 8 – ‘inspector decision which challenges housing targets versus housing supply’.

Mrs Lynch advised that the authority effectively no longer had a five-year land supply based upon the direct result of two recent planning appeals. She added that the authority was in the current position of looking towards the Government’s National Planning Policy Framework (NPPF) for guidance as the basis for its decision-making in respect of applications relating to sites beyond the ‘limits to built environment’. As a result of that situation Mrs Lynch advised that the risk scenario had been slightly down-graded because it had reduced the risk of an inspector’s decision which challenged the authority’s housing target.

Councillor Moore queried whether that was the right interpretation of the current position, adding that, if the authority had a five-year housing supply in place, it would have been in a strong position to have refused such planning applications in the first place. This, she added, suggested that the authority was currently in a weaker position, which might therefore have justified retention of this risk scenario’s ‘red flag’ status.

Mrs Lynch accepted the argument in part. However, she advised that the authority currently had no choice other than to work within the guidance of the NPPF for relevant sites and the practical consequence of that was a reduction overall in the risk.

Mr Hedges enquired if a question could be addressed to Mrs Lynch on risk scenario 1 – ‘cinema site remains undeveloped’, which the Head of Planning indicated she was happy to answer. She explained that, while no planning application had yet been made for this site by the new owners, there had been constant contact with them, including approaches made by the company before they had acquired the land.

Mrs Lynch added that the authority had made it clear in all discussions that it was looking for early progress with the redevelopment of this site, a view which she said accorded with the owner’s own ambitions. Mrs Lynch added that the redevelopment was likely to see a mixed-use scheme result, with housing, a GP surgery and a cinema included. She added that the owners had held a community workshop on the site’s future on 18 July, ahead of a more comprehensive public consultation process after the summer holiday period.

Mrs Lynch advised that there was every indication that the owners were backed by a strong team of professionals.

Councillor Chapelard enquired if he could ask a question on risk scenario 10 – the Development Programme – even though this was not within the remit of the Head of Planning Services. Lee Colyer, the Director of Finance and Corporate Services, advised that it might be preferable to defer this until the meeting of the Committee being held on 20 September, when the authority’s Chief Executive would be present, to answer questions on strategic risks.

Councillor Moore raised a question on risk scenario 4 – ‘unable to plan financially over the longer term’. She asked whether the wording

“Government has provided more flexibility surrounding council tax income” implied that business rate retention was a mitigating factor.

Lee Colyer, the Director of Finance and Corporate Services said that, currently, the Government was consulting on that particular proposal, so it was too early to say whether this would become a mitigating factor. He added that the localisation of business rates, while being an attractive principle, was likely to have additional responsibilities attached. He said that, once more details were known, he would be reporting further to members.

The Chairman, in seeking approval to the report’s recommendation, expressed his thanks to Mrs Lynch – who was leaving the authority that week – for her support for the Committee’s work and for her past help generally for members and he wished her well for the future.

RESOLVED – That the risk management report and arrangements for managing strategic risk be noted.

EXTERNAL AUDITOR PROCUREMENT

AG22/16 Rich Clarke, the Head of the Audit Partnership, presented a report, which outlined the three different route options the authority had in appointing its external auditor, a process which it was required to complete by 31 December 2017.

Mr Clarke advised that, before the Borough Council considered the procurement alternatives, suppliers must have had permission from the Financial Conduct Authority to provide public audit services. He added that, currently, there were five such suppliers to local authorities.

Mr Clarke summarised the advantages/benefits and the disadvantages/risks of the three options available, which were described as: (i) a solo procurement and auditor panel; (ii) joint procurement; or (iii) outsourced procurement (known as a sector-led body). Under that third category, Mr Clarke advised that, since the publication of the agenda, the Government had announced that Public Sector Audit Appointments (PSAA) had been approved as a ‘specified person’ under the legislation to procure public audit services within this category.

Mr Clarke advised that PSAA would be making contact with local authorities later this year, setting out details of their services. In the meantime, Mr Clarke invited the members of the Committee to say whether, at this early stage, they had a preferred route, based upon the options described in the report.

Mr Tony Quigley said that, based upon this initial report, it was possible that the sector-led body route might be the most advantageous but he added that this depended upon the number of local authorities signing-up to this option. He also asked how long an agreement under this option would last.

Mr Clarke advised that PSAA were saying that they believed that some 200 local authorities (which equated to approximately two-thirds of the total) might be following this option. He added that the probable time period for any such agreement would be three years, with an option of an additional two-year extension.

Mr Hedges said that the decision on which route to follow would be based on the key factor of cost versus control. He asked if it were possible to provide an estimate of the cost of the authority establishing and operating an auditor panel. Mr Clarke advised that this was not easy to estimate, as a key starting point would be whether the authority wished to pay an allowance to members of the panel and, if so, how much that would be.

Mr Shiels asked if the authority followed the option (iii) route (sector-led body), would it still be able to ensure the current provider undertook a local audit. Mr Shiels also asked if the 'duty of care' provisions would still exist at a local council level.

Mr Clarke advised that the issue of local audits would need to be a question to raise with PSAA. He added that, while authorities would certainly be able to comment on the arrangements, the final procurement decision would be for PSAA. Mr Clarke said that the level of influence any single authority could exert was a question to ask PSAA, as their arrangements for consulting with opted-in bodies had not yet been laid out. He added that these arrangements would come into effect from the audit of 2018/19, thus the existing system would continue until then.

Councillor Moore raised a concern at the sector-led body process under which, if the Council decided to follow that option, the 'specified body' (likely to be PSAA) would negotiate contracts and appoint on behalf of councils. She felt that that level of 'loss of control' made this route unattractive.

Mr Clarke advised that, previously, there had been a significant number of local authorities who had voiced their support for not selecting their auditor, which was why the 'specified person' route had been made available. However, he added that – equally – many authorities had expressed a wish to choose their auditor themselves.

Councillor Moore also asked if the statement that approximately two-thirds of local authorities might follow the sector-led body route had been based on just a 20% survey response rate; Mr Clarke could not provide any further details which might have substantiated the claim made by PSAA.

Councillor Moore raised two further questions: (a) would it be possible for the Audit and Governance Committee to act as the auditor panel under option (i); and (ii) could either the Mid-Kent Services Partnership (MKIP) or the possibility of a future West Kent devolved local authority provide a possible route for procurement?

Mr Clarke advised that, under the requirements of this process, an auditor panel would have to be a sub-committee of this Committee, because of the need to have a majority of independent members. As for a possible MKIP or other partnership route, Mr Clarke said that there had been no such proposals discussed to date.

Mr Colyer advised that the topic of appointing an external auditor under the new process had been discussed at the recent Kent Finance Officers' Group, where it was acknowledged that there was a high degree of risk involved in authorities procuring the service either alone or as part of a small group. He added that, at that stage, the general opinion was that the sector-led route was the most favourable, as it appeared to reduce the level of risk.

Mr Hedges drew attention to the current public audit suppliers and emphasised that all five companies listed were internationally-known and recognised. He felt that the risk to the authority of selecting from this list under option (i) was very small and asked why the Council would want to be part of a national scheme.

Parish Councillor Coleman believed that there was insufficient information available at this stage to be able to express a preference. He asked firstly who was likely to be leading the possible Local Government Association group, should they be approved as a 'specified body' and, secondly, whether there were any other sector-led bodies likely to be approved by the Government.

Mr Clarke advised that he was unaware of any other groups or bodies who had applied to the Secretary of State for approval. He said that, from viewing PSAA's prospectus, it was apparent that there was a great deal of relevant experience the group had to offer.

Mr Shiels sought further information about the benefits of the 'economies of scale' argument. He wondered whether Darren Wells from Grant Thornton was able to advise the Committee.

Mr Wells felt that, from the evidence of the NHS, who had already started on the path of this new procedure – with some authorities procuring on their own and others forming groups – the 'economies of scale' argument was not a significant factor. In practical terms, he added, it was unlikely that providers would submit a higher price for authorities procuring on their own.

Mr Colyer thanked the members of the Committee for their views, adding that, while it would have been helpful to have had a general steer towards a favoured option, he understood how further information was required before that could be done. He advised that, if the authority had heard more from PSAA before the September meeting, he would provide members with the details. He added that the final decision on this matter would have to be made by the Full Council.

Mr Quigley welcomed this guidance, adding that he would like to hear more about the progress of NHS bodies, when this matter was discussed again.

Mr Hedges advised that there were various frameworks in place across NHS organisations, adding that they would be required to make their decisions by 31 December this year. He asked if his request for information about the cost of the Council establishing its own auditor panel might be provided for the September meeting, as well as what the views were of neighbouring/Kent local authorities.

Councillor Moore felt that there was view amongst Committee members to obtain more control at a local level. She expressed surprise that there seemed to be a wider view that local authorities were pulling back from that opportunity, hence the need for further information before the Committee could give a firm steer.

Mr Shiels believed that the loss of control in allowing PSAA to choose for the authority would increase the likelihood of a change of auditor; he felt that this

might have a disruptive effect, the risks of which should be carefully considered.

RESOLVED – That the Committee notes the latest information on external auditor procurement and welcomes further details in due course.

FUTURE WORK PROGRAMME

AG23/16 The Committee's work programme was presented for members' information.

Lee Colyer, the Director of Finance and Corporate Services, said that, as a result of the previous item (minute AG22/16), this issue needed to be added to the list of items coming before the Committee at its 20 September meeting.

RESOLVED – That, with the above addition, the work programme be noted.

DATE OF NEXT MEETING

AG24/16 It was noted that the next meeting of the Committee would take place on Tuesday 20 September at 6pm.

NOTE: The meeting concluded at 6.55 pm.