

TONBRIDGE AND MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES

Monday, 21st July, 2025

Present: Cllr R I B Cannon (Chair), Cllr J R S Lark (Vice-Chair), Cllr T Bishop, Cllr J Clokey, Cllr M A J Hood, Cllr B A Parry and Cllr M R Rhodes

Virtual: Councillors M A Coffin and W E Palmer participated via MS Teams in accordance with Council Procedure Rule No 15.21.

PART 1 - PUBLIC

AU 25/26 NOTIFICATION OF SUBSTITUTE MEMBERS

There were no substitute members.

AU 25/27 DECLARATIONS OF INTEREST

There were no declarations of interest made in accordance with the Code of Conduct.

However, for reasons of transparency, Councillor Clokey reminded Members that in relation to agenda item 7 (Treasury Management Performance Update and Annual Report for 2024/25) he was employed by one of the companies who managed a multi asset fund which the Borough Council had invested in and was referenced in the report. As this did not represent either a Disclosable Pecuniary or Other Significant Interest there was no reason for Councillor Clokey to withdraw from the meeting.

AU 25/28 MINUTES

RESOLVED: That the Minutes of the meeting of the Audit Committee held on 14 April 2025 be approved as a correct record and signed by the Chairman.

MATTERS FOR RECOMMENDATION TO THE COUNCIL

AU 25/29 LOCAL CODE OF CORPORATE GOVERNANCE

The joint report of the Chief Executive and the Director of Central Services informed Members of the outcome of the annual review of the Local Code of Corporate Governance.

The Local Code was last reviewed in July 2024. The proposed changes to the Local Code were to reflect a small number of minor updates within the past year and a revised Code was attached at Annex 1 to the report.

Reference was made to a previous request that litigation be included in future to demonstrate that checks were undertaken to ensure that procedures were being followed and were reviewed to ensure their effectiveness in determining the outcome, which implementation was impacted due to conflicting priorities within Legal Services but would be progressed in due course.

Furthermore, it was suggested that links to published documents referenced in the Local Code of Corporate Governance be included when the Code was reviewed and published in the future.

It was proposed by Councillor Cannon (Chair), seconded by Councillor Clokey and the Audit Committee

RECOMMENDED*: That the updates and amendments to the Local Code of Corporate Governance, as set out at Annex 1 to the report, be approved and commended to Council for adoption.

***Recommended to Council**

AU 25/30 TREASURY MANAGEMENT PERFORMANCE UPDATE AND ANNUAL REPORT FOR 2024/25

The report of the Director of Finance and Transformation provided an update on investments undertaken during April to May of the current financial year and set out the Treasury Management outturn position for 2024/25.

A full list of investments held on 30 May 2025 was attached at Annex 1 to the report and a copy of the lending list at Annex 2. In terms of cash flow and core cash investments, £422,170 was earned in interest to the end of May 2025, which had exceeded expectation when compared to the original estimate for the same period. The positive variance was primarily driven by the slower-than-anticipated reduction in the Bank Rate, which had resulted in sustained higher interest yields on deposits. An extract from MUFG's (Mitsubishi UFJ Financial Group, formerly Link Asset Services) latest benchmarking data was provided in the form of a scatter graph at Annex 3, which showed that as at 31 March 2025 the Borough Council's return was 4.67%, in line with the local benchmarking group average of 4.56%.

With regard to long term investment, during the period 1 April 2025 to 31 May 2025, the £3m investment in property funds were estimated to have generated dividends of £28,730 which represented an annualised return of 4.61%, compared to 3.92% in 2024/25. Between April and May 2025, all property fund investments recorded capital depreciation. Despite

this, property funds had continued to distribute dividends, with an estimated £30,045 to be received for the first two months of the financial year.

Following the termination of the Lothbury Property Trust, five payments had been received to-date totalling £1,276,520 of the initial investment. Taking into account the dividends received in the sum of £380,755 since the fund's inception up to May 2025, the breakeven point would be achieved with the recovery of £342,725 from the sale of outstanding assets, which were expected to be concluded by the end of August 2025.

In addition, being a small-value investment stakeholder in the Hermes Property Trust, the Council would have the shares realised and paid out upon successful completion of the merger of the Trust.

Furthermore, reference was made to the recent acquisition of CCLA Investment Management Limited by Jupiter Investment Management Group Limited, subject to regulatory approval, and the potential benefit to arise from the acquisition was acknowledged.

Under medium term investment, during the period April to May 2025, the £4.25m investment in multi asset funds generated dividends of £36,460, which represented an annualised return of 5.13%.

Finally, Member's attention was drawn to the Treasury Management Annual Report for 2024/25 as set out at Annex 4, which provided a summary of the investment performance. The combined performance of the Council's investments exceeded the revised estimate by £375,604, and £846,854 when compared to the 2024/25 original estimates, mainly due to the Bank initiating its easing cycle and reducing the rates at a slower pace than anticipated in 2024/25.

It was proposed by Councillor Cannon (Chair), seconded by Councillor Rhodes and the Audit Committee

RECOMMENDED*: That the following be commended to Council:

- (1) the action taken by officers in respect of Treasury Management activity for April to May 2025, be endorsed;
- (2) the 2024/25 outturn position, be noted; and
- (3) the current position in respect of Lothbury and Hermes Property Investment Funds, be noted.

***Recommended to Council**

MATTERS FOR RECOMMENDATION TO THE CABINET**AU 25/31 RISK MANAGEMENT**

The report of the Management Team provided an update on the risk management process and the Strategic Risk Register. An update was also provided in respect of the work being undertaken within the Council to champion risk management.

An executive summary of the RED risks was provided at Annex 1 to the report and a full update on the current strategic risks and how they were being managed as at the time of writing were set out at Annex 1a to the report. The risks that were categorised RED at the time of the April 2025 meeting were:

- Achievement of Savings and Transformation Strategy
- Failure to agree a Local Plan
- Managed exit from the Agile System

Following a review of the risks on the Strategic Risk Register, updates had been made with notes in red to reflect the current strategic risks and mitigations, although it was noted that risks categorised RED remained as above.

Reference was made to the risk in respect of 'Devolution and Reorganisation in Kent Local Government', which remained as 'Amber' at this stage, although it was recognised that the ongoing risk assessment would be informed by the work underway regarding the submissions from the Kent authorities with the assistance of an appointed strategic partner.

During discussion, particular concern was raised by Members on the level of risk associated with cyber-attack given the significant impact it could have on the operation of an organisation. Although 'Cyber Security' risk was currently categorised as 'Amber' on the Strategic Risk Register, the importance of ensuring appropriate and robust mitigation measures in place was reinforced.

A schedule of ongoing risks and risks identified by Service Management Teams and Management Team since the last report to the Committee were set out at Annex 2 to the report.

In addition, Members were updated on the progress in respect of the review of the Risk Management Strategy led by the officer Risk Champions Group, with particular reference made to the proposal regarding the matrix model used in the Council's Strategic Risk Register. An updated Strategy was anticipated to be presented to the Committee to review in September 2025.

It was proposed by Councillor Cannon (Chair), seconded by Councillor Lark and the Audit Committee

RECOMMENDED*: That

- (1) the updates to the Strategic Risk Register since the last iteration, with particular emphasis on those risks categorised as RED as shown in Annexes 1 and 1a of the report, be noted; and
- (2) the service risks identified in Annex 2 of the report, be noted.

***Recommended to Cabinet**

MATTERS FOR DECISION UNDER DELEGATED POWERS

AU 25/32 ANNUAL GOVERNANCE STATEMENT 2024/25

The report of the Management Team presented the Annual Governance Statement for the year ended 31 March 2025, which was certified by both the Leader of the Council and the Chief Executive on 31 May 2025 and would accompany the Council's Statement of Accounts 2024/25.

The Annual Governance Statement, attached at Annex 1 to the report, had been prepared by reference to the self-assessment questionnaire and supporting evidence accompanying the Local Code of Corporate Governance, to demonstrate that there was a sound system of corporate governance throughout the organisation.

It was proposed by Councillor Cannon (Chair), seconded by Councillor Rhodes and the Audit Committee

RESOLVED: That the Annual Governance Statement for the year ended 31 March 2025, as set out at Annex 1 to the report, be endorsed.

AU 25/33 DRAFT STATEMENT OF ACCOUNTS 2024/25

The report of the Director of Finance and Transformation presented an unaudited set of Accounts for 2024/25 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom. Attention was drawn to the Statement of Accounts attached at Annex 1 to the report.

The final contribution to the General Revenue Reserve was in the region of £1.1m, which represented a positive variation of £43k. This was predominantly due to the levels of investment income that were able to be achieved over the last year alongside higher levels of income from other Council sources.

The Council's net worth increased by £15.2m in 2024/25 due to a number of factors, significantly the £3.2m reduction in pension liability

due to asset returns having been higher than expected and the increase of heritage asset values by £4m based on the Council's insurance valuations for the year.

Overall there had been an increase in the value of the Borough Council's Assets, however, it was noted that the Council's investment properties had decreased slightly since last year.

During discussion, it was noted that despite the wider backlogs in Local Authority Accounting and Audits, the Borough Council's Accounts were finalised by 31 May 2025, allowing the Council to benefit from an earlier External Audit, which had already commenced and was making good progress, with an aim for the Accounts to be signed off by the External Audit ahead of the next meeting of the Audit Committee in September 2025.

It was proposed by Councillor Cannon (Chair), seconded by Councillor Hood and the Audit Committee

RESOLVED: That

- (1) the enclosed unaudited set of Accounts for 2024/25 [Annex 1], be noted and endorsed; and
- (2) the Statement provided by the Director of Finance and Transformation [Annex 3] in support of assertions made in the Statement of Responsibilities for the Statement of Accounts, be noted.

AU 25/34 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2024/25

The report of the Director of Finance and Transformation informed the Committee of the findings of the Annual Review of the Effectiveness of the Internal Audit Function for the year 2024/25, conducted by the Chief Audit Executive. A summary of the findings of this review was attached at Annex 1 to the report.

An update was provided in respect of the Audit Plan completion performance as set out under 'Key performance indicator outturns' in the review report. It was noted that since publication of the agenda, progress had been made on one of the two outstanding audits, resulting in an increase of the completion rate from 85.71% to 92.85%, achieving the target of 90%.

Members were advised that the Management Team had considered the outcome of the review and concluded that the opinion on the effectiveness of the Internal Audit function in place for the year 2024/25 was Good.

It was proposed by Councillor Cannon (Chair), seconded by Councillor Bishop and the Audit Committee

RESOLVED: That on the basis of the findings of the review, the opinion that the effectiveness of the Internal Audit function for the year 2024/25 was Good, be endorsed.

**AU 25/35 INTERNAL AUDIT AND COUNTER FRAUD QUARTER 4
PROGRESS REPORT AND ANNUAL OPINION**

The report informed the Committee of the opinion of the Chief Audit Executive on the Council's framework for governance, risk management and control, together with the Internal Audit work completed during 2024/25 to support that opinion.

Attention was drawn to an Internal Audit Annual Report, attached at Annex 1, which provided a summary of the work completed by the Internal Audit service during 2024/25, highlighting key messages and outcomes, issues, patterns, strengths and areas for development in respect of internal control, risk management and governance arising from work undertaken by Internal Audit.

During discussion, particular reference was made to the Audit Opinion in respect of Temporary Accommodation, which was 'Limited' on the assurance level, and Members were provided with an explanation of the key area identified for development and an update on progress being made in Housing Services.

Furthermore, the report also informed the Committee of the work carried out by the Counter Fraud function in 2024/25 and Members raised queries in respect of the process rate and potential savings as outlined in the National Fraud Initiative, attached at Appendix 2 to the Internal Audit Annual Report [Annex 1].

It was proposed by Councillor Cannon (Chair), seconded by Councillor Parry and the Audit Committee

RESOLVED: That

- (1) this Internal Audit and Counter Fraud Progress Report, as a source of independent assurance regarding the risk, control and governance environment across the Council, noting the outcomes from previously reported 2024/25 Internal Audit and Counter Fraud work and activity and the updates for quarter 4 2024/25, be noted; and
- (2) the resultant Annual Opinion of 'Substantial' for the year 2024/25, be noted.

MATTERS SUBMITTED FOR INFORMATION**AU 25/36 GRANT THORNTON AUDIT PROGRESS REPORT AND SECTOR UPDATE**

The report of the Director of Finance and Transformation introduced a progress report on the Audit being undertaken on the Financial Statements for 2024/25 and updates on emerging national issues and developments identified by the external auditor, Grant Thornton, as set out at Annex 1 to the report.

During discussion, Members were pleased to note that the External Audit currently undertaken by Grant Thornton was progressing well with no significant areas identified in the planning stage and all was on track for reporting audit findings to the Committee at the next meeting in September 2025.

AU 25/37 EXCLUSION OF PRESS AND PUBLIC

There were no items considered in private.

The meeting ended at 8.50 pm