

Medway Council
Meeting of Audit Committee
Thursday, 29 March 2012
7.05pm to 10.05pm

Record of the meeting

Subject to approval as an accurate record at the next meeting of this committee

Present: Councillors: Clarke (Chairman), Griffiths, Jarrett and Mackness

Substitutes: Councillor Osborne (Substitute for Councillor Maple)

In Attendance: Councillor Geoff Juby, Leader of the Liberal Democrat Group
Rose Collinson, Director of Children and Adults
Mick Hayward, Chief Finance Officer
Perry Holmes, Monitoring Officer
Graham Matthews, Principal Auditor
Alison Russell, Audit Services Manager
Caroline Salisbury, Democratic Services Officer
Janice Watts, Fraud Manager

952 Record of meeting

The meeting held on 24 November 2011 was agreed and signed by the Chairman as a correct record.

During consideration of the minutes of the last meeting, the Chairman requested that the committee was updated with regard to minute 530(c). The Chairman also believed that the action taken in response to the committee's request in minute 537(a) did not adequately reflect the view of the committee and he asked that officers provided a breakdown of the actions taken following this decision. Members of the committee responded with regard to minute 537(a), which had been discussed in the closed section of the meeting, stating that officers had advised that the committee's suggestions were not possible but Members had decided that they still wished officers to 'vigorously explore the actions available to the Council to address the matters highlighted in the report'. The Director of Children and Adults undertook to update Members on the courses of action that had been considered and those that were now being undertaken in the closed session of this meeting.

Officers advised that the anti-fraud hotline was included in the Anti-Fraud and Corruption Policy and that rather than have an additional telephone number for staff, the same number as the Whistleblowing hotline should be used.

953 Apologies for absence

An apology for absence was received from Councillor Maple.

954 Urgent matters by reason of special circumstances

There were none.

955 Declarations of interest

Councillor Clarke declared a personal interest in any reference to schools, because his wife is an employee at St Mary's Island Primary School.

Councillor Griffiths declared a personal interest in any reference to schools, because his wife is an employee at Danecourt School and any reference to Medway Community Healthcare as he is a non-executive director of that Community Interest Company.

956 External Audit Annual Audit Plan 2011/2012

Discussion:

Robert Grant from PKF, the Council's external auditor, provided an overview of the Annual Audit Plan 2011/2012 which was attached at Appendix 1 to the report. This included details of the significant risks identified in planning the audit of the Financial Statements, the Council's value for money approach over the last three years and the auditor's fees which had increased by £30,000 since the Audit Fee Letter was issued in April 2011. The increase was due to an update that had been taken on the assessment of risks and the additional work necessary in addressing significant matters from the 2010/2011 audit.

Members asked if the external auditor was aware of the un-anticipated overspends in the capital programme, in particular with regard to Chatham bus station and road works at The Brook, as the projects were not mentioned in the Audit Plan 2011/2012. The external auditor responded that they did have regard to the capital programme but were not aware of the particular overspends mentioned but the significance of these would be included in the conclusion of the report.

Responding to Members' concern on the capital projects overspends, the Chief Finance Officer advised that the current £3.4 million overspend should be looked at in terms of the totality of the budget and that up until 31 March 2011, the Council was advised that everything was on time and budget for these projects. Members were assured that there would be a full statement with regard to the financing of these schemes when the current budget had been finalised. They were also assured that in regard to the high value Academy schemes, there were much better systems in place and the financial risks were passed onto the contractor.

Members questioned the significant risk raised by the external auditor in the Council's weakness in controls over the Fixed Asset Register, asking why there was not a standardised system throughout the Council for recording assets. The Chief Finance Office advised that assets were recorded using the

Audit Committee, 29 March 2012

Logotech system. Last year, the system had not been up-to-date resulting in assets being recorded on a spreadsheet system. However, Logotech had now been updated and all the Council's assets were on that system in one place. Training had taken place for officers involved with the updated Logotech system and that had also involved the PKF audit team.

Responding to why Logotech was not used throughout the Council, officers explained that service-led systems used within various departments, for example 'Confirm' within Highways and 'Atrium' within education, did not have the quality of information required by the external auditors for the completion of the statutory accounts. These stand-alone systems also carried out other functions specific to the service users.

Members asked for clarification about the external auditor's fee and how this compared to similar sized Local Authorities and whether other services were incorporated into these fees. Robert Grant from PKF advised that the Audit Commission published a scale of fees to determine the fee set. This had been adjusted with an increase of £30,000 to cover the work of the areas highlighted within the Significant Risks section of the annual report (page 15 of the agenda). Other services were commissioned on an adhoc basis and reports of any additional work were published at this committee, together with the fees for that work. There had been no other services commissioned for 2011/2012.

In response to further questions as to the transparency of additional fees charged by the external auditor, Robert Grant advised that the Council's accounts were subject to public inspection and the public had a right to question the accounts and then object to them, if they wished to do so. Although this had not yet happened, the external auditors did receive contact from the public and the auditors resolved these matters in discussion with the Chief Finance Officer or the Monitoring Officer. If it became a significant issue, the Council would be billed for the time spent on that matter but to date, this had not happened.

Members also asked whether there were any major risks that had been insufficiently addressed by the council over the past 12 months. Robert Grant responded that the main area addressed over the past nine months was the closure of auditable accounts for 2010/2011. There had been a huge effort from the finance team to complete this, with weekly and monthly meetings with various officers. One remaining internal control risk that had not yet been updated was the 'Care Director' recording the financial transactions in and out of the social services.

Decision:

The Committee accepted the proposed annual Audit Plan for 2011/2012.

957 External Audit's Grant Claim Report

Discussion:

Robert Grant of PFK advised that this matter had been submitted to the committee to comply with governance requirements. The report and attached letter presented the certification of grant claims for 2010/2011 and set out the main issues found, the external auditor's recommendations for improvement and management's response. Section 3 of Appendix A gave details of the claims audited and the reduced fee charged for that audit due to some grants being withdrawn, for example Disabled Facilities Grant and Sure Start centres.

Decision:

The committee accepted the external auditor's grant audit report for 2010/2011 including the proposed Action Plan to achieve further improvements to the accuracy of the grant claims submitted to government departments.

958 Whistleblowing Policy

Discussion:

The Monitoring Officer introduced the report advising that this policy review had taken place prior to his arrival. The committee had asked for the policy to be updated to incorporate relevant changes under the Bribery Act 2010 and provide staff with a clear route for raising concerns. He advised that paragraph 3.2 of the report set out the proposed changes to the policy.

A Diversity Impact Assessment screening form had been completed and it was not necessary to undertake a full impact assessment.

Decision:

The committee agreed to refer the Whistleblowing Policy, as set out in Appendix 1, to the Employment Matters Committee for consideration and referral to Council for approval.

959 Fraud Risk Assessment 2012/2013 and Fraud Resilience Strategy 2012-2014

Discussion:

The Audit Services Manager introduced the report advising that in November 2011 the committee had received a report from PKF regarding the council's level of fraud resilience with a series of recommendations and an action plan for strengthening the current arrangements in place. This was timely in the current economic climate where there was the potential for an increase in fraud against the council. A Corporate Fraud Risk Assessment was being developed and the first outcome of assessments completed was now being reported to the committee.

Audit Committee, 29 March 2012

The first assessment, at Annex A, included identified risk in certain areas, for example Blue Badges (for disabled drivers). It was emphasised that risk of fraud could not be completely eliminated and there would always be some areas at higher risk than others due to the nature of the work. The risk assessment for 2011/2012 provided a benchmark for future years.

Members questioned the value and priority the risk assessments had for the use of resources available. Officers responded that they had found this very useful as it gave a greater understanding of the workings of the council and it was a focussed, structured way in which to talk to staff. It had highlighted a lot of 'quick wins' about policies and strategies. It also raised awareness in teams and there were now protocols in place or being developed for working with managers.

Members also asked whether the increase in fees of £30,000 of the external auditor was related to the additional work on fraud risk assessments. The Chief Finance officer assured the committee that there was no connection. The council was one of the first to take part in this scheme, as part of the National Fraud Authority work in the public sector, as officers were aware how beneficial this work could be for the council. The Audit Services Manager advised that the fraud risk assessment being presented here was undertaken internally by her team and not by PKF. The Fraud Manager added that the council would be scrutinised by outside bodies on this matter and that the Council would be expected to be aware of the various fraud risks and be able to show how it would respond to them.

The committee asked how officers identified fraud risk and whether all service areas in the council were included or were the areas reviewed imposed by the auditors? The Audit Services Manager advised that her team had limited resources on the time it could spend on this issue and so she planned how to spend that time carefully. The Fraud Manager noted that some areas seemed to be at a low level but it was difficult to measure this purely in terms of financial fraud. For example, the Blue Badge scheme also allowed free congestion charge use which was a hidden saving of the scheme. Members asked that visitor's parking badges did not seem to have sufficient controls and that these were added to the fraud risk review.

Following a question as to why schools were not included in the information within the report, Members were informed that these were kept separate from this programme as school fraud risk was reported through the Internal Audit Programme and there was a separate risk assessment being undertaken for Schools.

Officers were asked about the introduction of the fraud hot-line (on pages 93 and 99 of the agenda). The committee had recommended that this was taken forward but, following discussion under minute 952 of this agenda, there seemed to be concern at the proposal of three separate numbers (for the Benefit Fraud hot-line, the Whistleblowing hot-line and the Fraud hot-line) causing confusion for the public and staff. Officers were advised that

Audit Committee, 29 March 2012

Wokingham Borough Council's e-mails contained a strap line with their hot-line information on it and officers were requested to look into the possibility of including this information on all the council's external correspondence. The committee asked to be kept up-to-date on the progress of the establishment of this hot-line following approval of the Whistleblowing Policy.

Decision:

The committee agreed to:

- (a) note the Fraud Risk Assessment 2012/2013 and Fraud Resilience Strategy 2012-2014;
- (b) request that visitor parking badges are included in the fraud risk review;
- (c) request a Briefing Note on the progress of the anti-fraud hot-line.

960 Anti-Fraud and Corruption Policy

Discussion:

This report considered the proposed changes to the Anti-Fraud and Corruption Policy following the introduction of the Bribery Act 2010. It also gave the council the opportunity to rationalise the policy, as set out in Appendix 1 of the report. A Diversity Impact Assessment screening form had been completed and it was not necessary to undertake a full impact assessment.

The committee asked why section 6 of the policy (page 119 of the agenda) had been removed in totality. The Audit Services Manager responded that most of this information was duplicated elsewhere in the policy and other parts were reflected in other council policies, for example the employee code of conduct.

Decision:

The committee agreed to refer the Anti-Fraud and Corruption Policy, as set out in Appendix 1, to the Employment Matters Committee for consideration and referral to Council for approval.

961 Internal Audit Strategy and Plan 2012/2013

Discussion:

The Audit Services Manager introduced this report on the proposed internal audit work plan for 2012/2013 and highlighted Annex B to the report which was divided into the types of audit to be held throughout the year. A significant amount of time had been set aside for audit follow up and probity reviews. Annex C outlined the coverage against the Corporate Risk Register to ensure all identified key risks were covered in the annual work plan. The work set out in Annex D, which covered key business systems, also supported the work of

the external auditors. A Diversity Impact Assessment screening form had been completed and it was not necessary to undertake a full impact assessment.

Responding to Members' questions, officers advised that an audit had not yet been held into on-line payment systems for council tax etc. Visa and Mastercard had imposed an industry compliance standard (PCI DSS) and the council had been working to review its systems and protocols to achieve compliance. This had led to significant improvements in the way that sensitive credit and debit card records were handled. For example, the council had previously recorded credit card information manually, this had now been shredded and no paper files remained. Some systems had needed to be replaced as they were not up to the standard required and the main cash recording system was being upgraded to compliance standards. Unfortunately, the industry had only recently further increased the standard to a more rigorous requirement (PA DSS) and this was now being investigated as part of the ongoing project. The Chairman asked for a Briefing Note on the compliance project.

Decision:

Members approved the 2012/2013 internal audit programme and noted the outcome of the 2011/2012 work programme.

962 Outcome of counter fraud investigations

Discussion:

This report gave details of the investigations carried out in the first nine months of the year, together with the successful prosecutions, administrative penalties, cautions and suspended custodial sentences that had taken place in that time.

Referring to page 154 of the agenda, Members asked if the overpayment amounts had been written off and how the administrative penalty amount was set. Officers advised that the council would normally seek to recover any overpayment and the calculation for the administrative penalty was 30% of the overpayment. However, following discussion on the amounts shown in Annex A, officers undertook to clarify how the administrative penalty charge was calculated and inform Members via a Briefing Note.

Decision:

The committee noted the progress in investigating benefit fraud in accordance with the approved sanction policy.

963 Internal Audit Work Programme

Discussion:

The committee was advised that this matter was reported to each meeting of the committee to confirm the current status on the audit team's work

Audit Committee, 29 March 2012

programme. Annex A set out the outcomes for the various audits and following the publication of the agenda, a further two were now at the draft report stage and on target to be completed on time.

Members asked whether they could receive a report on the progress and update on school probity audit work, as set out in paragraphs 2.6 and 2.7 of the report. The Audit Services Manager confirmed that the committee would receive a report of each audit and at the end of the year there would also be a consolidated report.

Decision:

Members noted the progress in completing the 2010/2011 programme and delivering the 2011/2012 audit plan and that all key assurance work would be completed to support the needs of the annual governance statement and external audit.

964 Outcome of Internal Audit Activity

Discussion:

This report gave details of the outcomes of Internal Audit activity completed since the last meeting of the committee. Further emphasis was not being placed on follow up work in order to provide the Committee with assurance on progress being made in strengthening the internal controls. Annex B set out the team's opinion for each audit service and Annex C gave the details supporting that opinion.

Members expressed their extreme dissatisfaction with the situation around income from the markets. The Portfolio Holder for Finance advised that he had reluctantly agreed to bring the management of markets in-house and it had not proved to be successful. He did not believe that this was a matter for the Audit Committee to consider and he undertook to take this matter up with officers. He informed the committee that he would ask for information on the current operation of town centre management, how effective it was and additional information about outsourcing the management in a similar manner to other Local Authorities, such as Maidstone Borough Council.

Referring to page 169 of the agenda, the committee asked why three previous recommendations had not been implemented, especially as some of these were very simple changes, for example to change the size of a receipt book. Members also asked why this was not recorded electronically.

Decision:

The committee noted the outcome of Internal Audit's work.

965 Preparation for compiling the Statement of Accounts 2011/2012

Discussion:

The Chief Finance Officer introduced the report advising that Members had requested this information following a report to the previous meeting that had identified problems and on-going challenges in producing a compliant set of accounts for 2010/2011. A detailed timetable was set out in Appendix A and at present, all actions were on time to be completed by the date shown. He assured Members that he was keeping a tight control on the situation to ensure that the timetable was on track.

Decision:

The committee note the report.

966 Local Public Audit consultation

Discussion:

This report set out the results of a consultation carried out by the government on the future of local Public Audit. The changes to the current system were set out in paragraph 3.1 of the report but one of the main features of the consultation, to introduce an independent Audit Committee for each Local Authority (as set out in paragraph 3.3 of the report), had been discarded following the consultation responses. However, there was still a proposal to appoint an Independent Audit Appointment Committee (IAAC) but this would may not be needed for a number of years, so the work of the Audit Committee continued as normal.

As a follow-up, a member asked that now the role of the Audit Committee was clarified, could consideration be given to the training requirements in the role for Members, as previous training had been inadequate. The Chief Finance Officer agreed to look into the matter and was keen to see a more pre-active session.

Members asked what role, if any, the Audit Committee would have in the implementation of the IAAC. Officers advised that it would be the responsibility of the Local Authority to appoint the IAAC and, once the new arrangements were in place, the council would need to determine how the Audit Committee interacted with the IAAC. However, the current external auditor was appointed until the end of 2012/2013 and it was understood that it was likely that the Audit Commission would be issuing an extension to current arrangements to align the procurement on a national basis (former Audit Commission staffed services have recently been re-tendered and awarded to Private Sector providers). More detail was expected to be announced in April 2012 and Members would be kept informed.

Decision:

The committee noted the report.

967 Exclusions of the press and public

Resolved:

That the press and public are excluded from the meeting during consideration of the exempt material relating to agenda item 16 (Irregularity report) because consideration of this matter in public would disclose information falling within paragraphs 5 and 7 of Part 1 of Schedule 12A to the Local Government Act 1972 as specified in item 17 and, in all the circumstances of the case, the committee considered that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

968 Irregularity report

Discussion:

This report and exempt appendix informed Members of the outcome of five investigations.

Members discussed the various reports and accompanying management action plan in detail. During discussion on the final investigation, Members asked why more vigorous action had not been taken and the Director of Children and Adults explained the sequence of events and timeline together with the courses of action that had been considered and those now being undertaken to obtain an outcome. The committee requested that the lessons learnt from this case would ensure earlier intervention by the council in such cases in the future and that a clear process for officers to follow would be compiled.

Decision:

The committee agreed to:

- (a) note the report;
- (b) welcome that lessons learnt were being considered in the probity review of schools;
- (c) request regular updates on the situation of the final case.

Audit Committee, 29 March 2012

Chairman

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