

Medway Council
Meeting of Audit Committee
Wednesday, 26 September 2012
7.00pm to 8.55pm

Record of the meeting

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

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

In Attendance: Kerry Barnes, PKF (Council's External Auditor)
Angela Drum, Head of Legal Services
Robert Grant, PKF (Council's External Auditor)
Mick Hayward, Chief Finance Officer
Andy Larkin, Finance Support Manager
Anthony Law, Democratic Services Officer
Andy McNally-Johnson, Senior Accountant
Alison Russell, Audit Services Manager
Janice Watts, Fraud Manager

406 Record of meeting

The record of the meeting held on 10 July 2012 was agreed and signed by the Chairman as a correct record.

407 Apologies for absence

An apology for absence was received from Councillor Jarrett.

408 Urgent matters by reason of special circumstances

The Chairman referred Members to an addendum report for agenda item 5 (Annual Governance Report 2011/2012), which had been tabled at the meeting.

409 Declarations of disclosable pecuniary interests

There were none.

Councillor Griffiths sought clarification as to whether he had a disclosable pecuniary interest in agenda item 5 (Annual Governance Report 2011/12) given the reference to Medway Community Healthcare Community Interest Company, as he is a non-executive director. Given the nature of the reference within the Statement of Accounts he was advised by officers that there was no disclosable pecuniary interest and it was not necessary for him to leave the room.

410 Annual Governance Report 2011/12

Discussion:

The Chief Finance Officer introduced the external auditor's Annual Governance Report for the year ended 31 March 2012. The Annual Governance Report, attached at Appendix 1 to the report, set out the key findings from the audit of the accounts and use of resources, together with the external auditor's opinion on the Annual Governance Statement.

The report gave details of the main issues arising from the audit. A revised version of the Statement of Accounts, from that considered by the Committee in July 2012, was attached to the report and an addendum report was tabled at the meeting setting out further amendments. These amendments, identified by the external auditors since the circulation of the Committee report, were to the explanatory foreword and some disclosure notes and had no impact on the principal Statement of Accounts.

Robert Grant from PKF, the council's external auditor, provided an overview of the external auditor's report. This included details of the deficiencies in internal controls, such as the need to maintain an effective fixed asset register, and the high number of 'non-trivial' but not material errors and inconsistencies that had been amended by officers. Issues highlighted to the Committee included removing the 'negative' balance disclosed on the Useable Capital Receipts Reserve, substantial amendments made to note 1 to the financial statements (Adjustments between Accounting Basis and Funding Basis under Regulations) and the separate disclosure of the Housing Revenue Account settlement amount on the Comprehensive Income and Expenditure Statement.

Robert Grant confirmed that, with the conclusion of their work, he would be issuing an unqualified opinion on the financial statements. It was further noted that the auditor was satisfied with the Annual Governance Statement and that they would also be issuing an unqualified value for money conclusion. Work on reviewing the consistency of the Whole of Government Accounts Return with financial statements was ongoing.

During the discussion on this item officers were asked to verify and amend, if necessary, the total payment received from Medway Community Healthcare in 2010/11, as reported on page 131 of the agenda. It was also noted that the final figure in paragraph 3.16 of the external auditor's report should read "£80,000".

The Committee acknowledged that this audit represented a significant improvement compared to previous years and congratulated officers on their work in preparing the Statement of Accounts.

Decision:

- a) The Audit Committee noted the issues raised and judgements made by the external auditor as presented in Appendix 1 to the report, and agreed the proposed response as set out at Appendix A to the Annual Governance Report.
- b) The Audit Committee agreed, subject to any amendment to the total payment received from Medway Community Healthcare in 2010/11 (as reported on page 131 of the agenda), the revised Statement of Accounts as set out in Appendix 2 of the report, including the amended Accounting Policies set out within that document and that these now form the published accounts of the Council.
- c) The Audit Committee agreed the Management Representations Letter, attached at Appendix C of the Annual Governance Report.
- d) The Audit Committee congratulated staff for their work in bringing forward the 2011/2012 Statement of Accounts.

411 Review of Risk Management

Discussion:

This report updated the Audit Committee on progress with the council's risk management activities.

The Chief Finance Officer explained that whilst the 2011/2012 Risk Management Audit had confirmed that risk management arrangements were satisfactory, a number of 'medium priority' recommendations had been identified. These recommendations were set out within the agreed Management Action Plan attached as Appendix A to the report.

Members discussed the action plan, how risk management was embedded within the organisation and, in particular, the recommendation relating to concerns that the Council's risk management arrangements did not comply with current best practice; in as much as significant inherent risks and the controls managing them were not recorded in the risk register and, as such, the organisation would not know what its exposure would be if controls should fail.

It was noted that the Strategic Risk Management Group were meeting to consider the impact of new processes and procedures on current arrangements and the resources required to implement them. The Audit Committee requested a briefing note outlining how other organisations dealt with risk registers.

Decision:

- a) The Audit Committee noted progress on the Council's risk management activities.

- b) That the Audit Committee be provided a briefing note outlining the approach of other organisations when dealing with the risk register.

412 Fraud Resilience Strategy

Discussion:

The Audit Services Manager introduced the report, which provided an update on the progress made with the actions included within the Fraud Resilience Strategy. The Fraud Resilience Strategy, which had been presented to the Audit Committee in March 2012, included an action plan for 2012 to 2014.

Annex A to the report summarised progress made in the first six months of the strategy. Members were referred to:

- the development of a joint working protocol between Human Resources and Audit Services for investigations relating to fraud and financial irregularity;
- the planned development audits on health governance and category management; and,
- the work being undertaken on blue badges, tenancy fraud and single person discounts.

It was noted that the strategy would be presented to the Audit Committee annually, with six monthly updates on progress.

Responding to Members' questions the Audit Services Manager advised of proposals to develop fraud awareness, which included an intended "probity day" and an awareness session for service managers. It was also confirmed that the practicalities of introducing a single hotline were continuing to be considered for all instances of fraud and that the audit of CRB and employment vetting processes was at the planning stage and so outcomes were unknown at this stage. Officers also advised Members of how internal audit received intelligence relating to blue badge fraud.

The Audit Services Manager was requested to provide the Committee with a briefing note updating Members on progress, and any associated issues, with launching the audit and fraud site on the Council's external website, and creation of a single hotline for reporting all fraud and financial irregularity.

Decision:

- a) The Audit Committee noted the progress made on the Fraud Resilience Strategy.
- b) The Audit Committee requested a briefing note updating Members on progress with launching the audit and fraud site on the Council's external website and creating a single hotline for reporting all fraud and financial irregularity.

413 Whistleblowing Report on Instances September 2011 - September 2012

Discussion:

The Head of Legal Services introduced the report that advised Members of one concern raised under the Whistleblowing Policy between September 2011 and September 2012. This had been raised by an employee of a contractor and the outcome would be reported to the Audit Committee in due course.

It was reported that the Council's Whistleblowing Policy set out its commitment to tackling unlawful acts including fraud, corruption, unethical conduct and malpractice. The policy also encouraged all individuals to raise serious concerns about practices by the Council. The requirement to report to the Audit Committee on the number and nature of concerns raised was set out within the Anti-Fraud and Corruption Policy and the Whistleblowing Policy, both of which were set out within the Council's Constitution.

The Head of Legal Services advised Members that the Whistleblowing Policy had been publicised within The Headlines, Medway Council's internal newsletter, and also published on Medway Council's intranet. It was noted that employees may however raise issues through other mechanisms, such as directly with their line manager, under the Dignity at Work Policy or through the Council's grievance procedures.

Members were advised that 'Public Concern at Work', an independent authority which sought to ensure that concerns about malpractice were properly raised and addressed in the workplace, had offered to review Medway's whistleblowing systems. This proposed health check was supported by the Audit Committee.

Decision:

- a) The Audit Committee noted the report.
- b) The Audit Committee supported the independent health check of Medway Council's whistleblowing systems and requested a report back on the findings at the earliest opportunity.

414 Outcomes of Internal Audit Activity

Discussion:

The Audit Services Manager introduced this report on the outcome of completed internal audit since the last meeting of the Audit Committee. This included details of 3 audits on key financial systems that had changed as part of the Better for Less programme, 3 follow-up audits and 3 school probity reviews.

In relation to the Rochester Christmas Market audit Members discussed proposals for a Christmas market in 2012, which would be operated by the

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Council. The Head of Legal Services also advised that the Council should be able to retain the security bond paid by the company previously operating the market to offset amounts due to the Council.

Members discussed the programme of school financial probity audits being undertaken. The Audit Committee was assured that schools were taking these audits seriously and it was expected that all schools would be audited within 3 years. The Audit Services Manager advised that at the end of the financial year a report would be submitted to the Audit Committee reviewing the audits undertaken. This report would highlight examples of good practice; although Members were assured that, in the meantime, if issues were identified within a school that school would be signposted to good practice elsewhere. Following discussion the Chief Finance Officer undertook to write to those schools that had failed to submit audited annual returns for school voluntary fund accounts, encouraging them to do so.

Responding to questions on the markets income follow-up audit Members were advised that internal audit would liaise with management in 3 and 6 months to ensure that the new control arrangements were embedded within the management processes.

Decisions:

- a) The Audit Committee noted the outcome of Internal Audit's work.
- b) That the Chief Finance Officer write to those schools that had failed to submit audited annual returns for school voluntary fund accounts encouraging them to do so.

415 Investigations Relating to External Fraud

Discussion:

The Fraud Manager advised Members of progress in investigating allegations of housing benefit and council tax benefit fraud and other non-benefit related external fraud during the first quarter of 2012/13. This included details of the work undertaken to establish an investigation framework for blue badge fraud and misuse, and the continuing work with the Housing Team in relation to individual allegations of housing fraud.

The main changes introduced by the Welfare Reform Act were set out at Annex A to the report.

It was noted that as at 5 September 2012 there had been seven successful prosecutions and three cautions for benefit offences. Details of these cases were set out in an appendix to the report. Members were also advised that during the first quarter of 2012/2013 the Corporate Anti-Fraud Team had identified £196,000 of fraudulent overpayments of Housing and Council Tax Benefit and £112,000 of Department for Work and Pensions paid benefit. This was a decrease when compared the same quarter in 2011/12; attributable in

part to more robust data matching that reduced the incidents and values of overpayments of benefits.

Members queried the background to case 85588/11983 (as contained within Annex A to the report) and the Chief Finance Officer undertook to provide Members with briefing notes outlining the background to this case and also the implications of Individual Voluntary Arrangements and bankruptcy on council tax benefit overpayments.

During the discussion on this item Members requested notification of the outcome of Medway Council's first prosecution on the misuse of a blue badge.

Decision:

- a) The Audit Committee noted progress in investigating benefit fraud in accordance with the approved sanction policy.
- b) That the Chief Finance Officer provides the Audit Committee with briefing notes outlining the background to case 85588/11983 (as contained within Annex A to the report) and also the implications of Individual Voluntary Arrangements and bankruptcy on council tax benefit overpayments.

416 Internal Audit Work Programme

Discussion:

Members were given a brief overview of the 2010/2011 and 2011/2012 internal audit work programme.

The report detailed the internal work programme, which had been approved by the Committee in July 2011 and was derived from a number of sources including the Council's risk identification process, Internal Audit's view of risk, requests from Members and officers, and discussions with the external auditor. Details were given as to the resourcing issues that had led to five audits being recommended for removal from the plan, as detailed within Annex B to the report.

Members discussed the work programme and requested a briefing ahead of the next meeting of the Audit Committee to consider the probity review for Woodlands Primary School.

Decisions:

- a) The Audit Committee noted the progress in completing the 2011/2012 programme and delivering the 2012/2013 audit plan and that all key assurance work would be completed to support the needs of the annual governance statement and external audit.
- b) The Audit Committee approved the proposed revisions to the 2012/2013 audit programme.

- c) The Audit Committee requested a briefing ahead of the next meeting of the Audit Committee to consider the probity review for Woodlands Primary School.

417 Single Fraud Investigation Service (S-FIS)

Discussion:

The Fraud Manager updated the Audit Committee on the Single Fraud Investigation Service (S-FIS), which as part of the Department for Work and Pensions (DWP) would investigate benefit and tax credit fraud and, when commenced, Universal Credits.

It was noted that the intention was to bring together investigation staff from Local authorities, Department for Work and Pensions, and Her Majesty's Revenues and Customs. Local authority staff would however remain employed by local authorities but operate under S-FIS DWP powers, policies, procedures, processes and priorities. The latest update from the DWP was attached at Appendix A to the report. This confirmed that the arrangements would be piloted in four local authorities.

Decision:

The Audit Committee noted the update on the Single Fraud Investigation Service.

418 Exclusion of the press and public

Resolved:

That the press and public are excluded from the meeting during consideration of the exempt material relating to the first investigation listed within agenda item 13 (Irregularity report) because consideration of this matter in public would disclose information falling within paragraphs 2 of Part 1 of Schedule 12A to the Local Government Act 1972 as specified in item 14 and, in all the circumstances of the case, the Audit Committee considered that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

419 Investigations Relating to Financial Irregularities

Discussion:

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

It was also reported that a joint working protocol between Audit Services and Human Resources was being developed in relation to the investigations of suspected fraud by Medway employees. Members were advised that since the

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joint working process had began there had been an increase in referrals to Audit Services and therefore there would in future be an increase in investigations reported to the Audit Committee. Once the protocol for joint investigation working had been finalised it would be reported to the Audit Committee for information.

The Committee considered an update on the fraud investigation into a former member of staff at Temple Mill Primary School, where sentencing and a confiscation hearing under the Proceeds of Crime Act were scheduled shortly. The Audit Committee noted that a probity review at Temple Mill Primary School had been undertaken by the Council and reported to the Committee in July 2012. A further follow-up audit would be undertaken in order to provide assurance that the issues raised were addressed.

The Committee agreed to exclude the press and public for the consideration of the first investigation listed within the exempt appendix. Following their discussion the Audit Committee requested that the Employment Matters Committee review the Employee Code of Conduct to ensure there was no repetition of this situation.

Decision:

- a) The Audit Committee noted the outcome of the irregularity investigations and the actions taken.
- b) That the Employment Matters Committee consider potential changes to the Employee Code of Conduct to ensure that there is no repetition of the situation outlined within the exempt appendix.

Chairman

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