

Medway Council
Meeting of Audit Committee
Thursday, 20 December 2012
7.00pm to 8.45pm

Record of the meeting

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

Present: Councillors: Clarke (Chairman), Jarrett and Maple

Substitutes: Councillor Adrian Gulvin for Councillor Mackness

In Attendance: Mick Hayward, Chief Finance Officer
Perry Holmes, Monitoring Officer
Anthony Law, Democratic Services Officer
Graham Matthews, Principal Auditor
Alison Russell, Audit Services Manager

678 Record of meeting

The record of the meeting on 26 September 2012 was agreed and signed by the Chairman as a correct record.

In relation to minute 414(b)/2012 (Outcomes of Internal Audit Activity) the Chief Finance Officer advised Members that officers had written to those schools that had failed to submit audited annual returns for school voluntary fund accounts and he undertook to provide a briefing note updating Members on the issue.

The Democratic Services Officer also undertook to notify the Committee, in relation to minute 419(b)/2012 (Investigations Relating to Financial Irregularities), as to the outcome of the discussion by the Employment Matters Committee concerning potential changes to the Employee Code of Conduct following the reported investigation.

679 Apologies for absence

Apologies for absence were received from Councillor Griffiths and Councillor Mackness.

It was also noted that an apology for absence had been received from Robert Grant, PKF (Council's External Auditor).

680 Urgent matters by reason of special circumstances

The Chairman advised the Committee that he had agreed to accept a report on the proposed fees and outline work programme for PKF, the council's external

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auditor, for the 2012/2013 financial year as an urgent item. The external auditor was required to submit this report to the Committee and the submission at this meeting would enable Members to consider the item at the earliest opportunity, rather than await the next scheduled meeting in March 2013.

681 Declarations of disclosable pecuniary interests

There were none.

682 Preparation for Compiling the Statement of Accounts 2012/2013

Discussion:

The Chief Finance Officer introduced this report that set out a timetable for the production of the 2012/2013 Statement of Accounts.

It was noted that whilst the accounts for 2011/2012 had been successfully completed with an unqualified opinion, this report followed a recommendation from the external auditor concerning the need to review the capacity to complete a qualitative review of the draft financial statements in 2013.

The timetable attached at Appendix A to the report showed the key tasks to be carried out in 2012/2013 together with target dates, the target and actual dates for 2011/12 were also included for reference.

Members discussed the key risks to the successful closedown of the Statement of Accounts. Noting that one risk was the loss of knowledge should key staff leave the Council, it was reported that the Principal Accountant Finance Support would shortly be leaving the Council. Members were assured however that regular knowledge sharing meetings held throughout the 2011/2012 closedown cycle, robust working papers and close scrutiny by the team producing the accounts would assist in mitigating the impact of this. The post had also been advertised and the Chief Finance Officer undertook to update the Committee on the outcome of the recruitment process.

Decision:

The Audit Committee noted the report.

683 Annual Audit Letter and Final Fee Letter 2011/2012

Discussion:

This report presented the Annual Audit Letter for 2011/2012, which was attached as Appendix 1 to the report. The Letter summarised the key issues arising from the work undertaken by the Council's external auditor during the year ending 31 March 2012.

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It was noted that PKF's detailed findings and recommendations were reported to the Audit Committee on 26 September 2012 within the Annual Governance Report.

The report also set out the final fee for the audit of financial statements in 2011/2012. It was noted that the total fee was £418,100, representing a variance of £22,000 between the planned and actual fee. This was attributable to a £29,000 increase in the fee for the audit of the 2011/2012 financial statements and a reduction of £7,000 for the audit of grant claims.

Decision:

The Audit Committee noted the content of the Annual Audit Letter for 2011/2012 and External Audit Fee Letter.

684 External Auditor Planning Letter 2012/13

Discussion:

The Chief Finance Officer introduced this report and attachment, which set out the proposed fees and outline programme of work for PKF for the 2012/2013 financial year.

It was noted that the 2012/2013 fee was the scale fee recommended by the Audit Commission and represented a reduction of £185,000 when compared to the final fee for the period ended 31 March 2012. Members were advised that the level of fee reflected the reduction achieved by the procurement exercise undertaken by the Audit Commission in March 2012. The scale fee presented may need to be modified in the light of discussions to be held upon assumptions by PKF concerning the preparation and publication of the annual financial statements and previously identified weaknesses within internal control had been addressed. Any variation would be reported back to the Committee.

Decision:

The Audit Committee noted the content of the 2012/2013 Planning Letter.

685 Internal Audit Work Programme

Discussion:

The Audit Services Manager gave Members a brief overview of progress in delivering the approved 2011/2012 and 2012/2013 work programme, and probity and follow up work undertaken since the last meeting of the Audit Committee.

Members were advised that a number of investigations were ongoing and would be reported in quarter four. It was also reported that three audits were

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yet to be scheduled and may need to be delayed into the 2013/2014 work programme.

Members questioned the remit of the Partnerships Audit and stressed the importance of it considering the partnership and governance arrangements of social enterprises that had a business relationship with the Council. Officers explained that the audit would consider such arrangements, covering inter alia management of costs and service delivery monitoring. It would also explore the role of the Council's audit team in providing assurance as to the use of the Council's money. In the context of this audit the importance of how the Council commissioned services was stressed, together with the monitoring of Service Level Agreements. The role of Overview and Scrutiny, Portfolio Holders and service departments in considering service implications was also emphasised. Members requested that the audit team work with officers within relevant service departments and the category management team to explore the issue of management control within such social enterprises.

Decision:

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.

686 Outcome of Internal Audit Activity

Discussion:

The Audit Services Manager introduced this report on the outcome of completed internal audit activity since the last meeting of the Audit Committee. This included details of five audits on key financial systems, two follow-up audits and seven school probity reviews.

Members queried the conclusion section for the Schools Financial Management audit, as set out in the report, given the reported weakness identified through the 2012/2013 probity reviews. In response Members were advised that the appendices to the full report contained details of the main issues arising from the audit, together with the actions those schools could take to address them. The full report and a copy of the Audit Commission's "Fraud Risk in Schools – Advice For School Governors" would be published on the schools website, as well as circulated to the Chairs of Governing Bodies of all Medway's School with the requirement that it was presented to the full Governing Body to help them consider the effectiveness of the financial management within their school. In addition the Audit Service Manager would be attending the Schools Forum in January 2013 to present the findings from this audit.

During the discussion on this audit officers undertook to provide the Committee with a full copy of the Schools Financial Management audit report. The Chief Finance Officer also undertook to raise with colleagues within the Children and Adults directorate, Member concerns regarding the provision of adequate

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training for council appointed school governors and Councillor Maple undertook to raise this need with the Member Development Advisory Group.

In response to general comments as to the level of information provided within this report the Audit Services Manager undertook to provide for future audits more detail, so to provide further context for the Committee. This would include a summary of any medium priority recommendations.

With the support of the Committee the Chairman undertook to write to those schools where there were positive findings from their probity audits. Officers undertook to provide a list of the schools to the Committee.

Referring to the Local Management of Payroll Processes audit Members referred to previous discussions at the Committee concerning overpayments to staff and requested an update on payments still due and an opinion on whether this was still considered to be a problem.

At the request of the Committee the Audit Services Manager undertook to provide the Committee with details identifying the five projects reviewed as part of the Project Management Review audit.

Decision:

The Audit Committee noted the outcome of Internal Audit's work as set out in the report.

687 Investigations Relating to External Fraud

The Audit Services 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 second 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 report also updated Members on the planned introduction of the Single Fraud Investigation Service, the expected dates for the abolition of Council Tax Benefit and the introduction of a new localised scheme, and the first successful prosecution of blue badge fraud and misuse.

Members were advised that in the second quarter there had been 12 successful prosecutions for benefit offences and details of these cases were set out in Appendix A to the report. There had also been one caution and one administrative penalty.

It was reported that during the second quarter of 2012/2013 the Corporate Anti-Fraud Team had identified £130,000 of fraudulent overpayments of Housing and Council Tax Benefit and £55,000 of fraudulent Department for Work and Pensions paid benefits.

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During the discussion on this item officers undertook to provide Members with:

- comparative information for other authorities, when the next national survey had been completed.
- background as to the Civil Penalty Scheme that had been introduced under the Welfare Reform Act 2012, including details of why the Council had not adopted the scheme and the likely costs of its administration.
- whether a limit could be set on benefits whereby automatic checks were made to safeguard against large overpayments, such as that reported in case 1039649/12067.

Members also requested that Appendix A in future reports to Committee include details of how long the fraudulent overpayment had been made.

Decisions:

- (a) The Audit Committee noted progress in investigating benefit and other external fraud in accordance with the approved Anti Fraud and Corruption policy.
- (b) The Audit Committee noted the updates regarding the implementation of the Single Fraud Investigation Service and the Localised Council Tax Support Scheme and the impact on Medway Corporate Anti-Fraud Team.

688 Exclusion of the Press and Public

Decision:

The press and public were excluded from the meeting during consideration of the exempt material contained within the appendix to agenda item 10 (Irregularity Report) because consideration of this matter in public would disclose information falling within paragraphs 2 and 7 of Part 1 of Schedule 12A to the Local Government Act 1972 as specified in agenda item 11 (Exclusion of Press and Public) 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.

689 Investigations Relating to Financial Irregularities

Discussion:

This report informed Members of the outcome of recent investigations.

An irregularity investigation was set out at Annex A to the report concerning issues raised by the Council's Transport Procurement Unit that a taxi firm contracted to provide a taxi service for a particular school route, was not in fact providing the service. Details of the findings, outcomes and management actions were set out and during the discussion on this item the Audit Services Manager undertook to provide the Committee with details of the renewal date for the contract.

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Exempt Annex B to the report provided details of two further irregularity investigations and a progress report on one ongoing investigation.

Members discussed the outcomes in details and officers responded to Members' questions.

In relation to the taxi service investigation Members were advised that whilst the contractor was at fault in providing inaccurate invoices to the Council, the Transport Procurement Unit had failed in this instance to monitor the contract effectively. Details were given as to the changes since this instance, including the processes and controls in place to safeguard against this reoccurring.

During the discussion of this report the Chief Finance Officer undertook to provide Members with a briefing note setting out the details of the loan provided to The Howard School from the Council, as reported under agenda item 8 (Outcomes of Internal Audit Activity).

Decision:

The Audit Committee noted the outcome of the irregularity investigations and the actions taken.

Chairman

Date:

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