

Medway Council
Meeting of Audit Committee
Thursday, 21 March 2013
7.00pm to 10.20pm

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

Substitutes: Councillors: Adrian Gulvin for Councillor Jarrett

In Attendance: Kerry Barnes, PKF (Council's External Auditor)
Elizabeth Benjamin, Senior Lawyer - Litigation
Robin Cooper, Director of Regeneration, Community and Culture
Stephen Gaimster, Assistant Director Housing, Development and Transport
Robert Grant, PKF (Council's External Auditor)
Mick Hayward, Chief Finance Officer
Anthony Law, Democratic Services Officer
Alison Russell, Audit Services Manager
Janice Wellard, Fraud Manager

926 Apologies for absence

An apology for absence was received from Councillor Jarrett.

927 Record of meeting

The record of the meeting on 20 December 2012 was agreed and signed by the Chairman as a correct record.

The Committee discussed the actions agreed at the last meeting and took this opportunity to note and welcome the further information provided concerning overpayments to staff, as discussed under minute 686/2012 (Outcome of Internal Audit Activity). In relation to minute 687/2012 (Investigations Relating to External Fraud) the Chief Finance Officer advised that the briefing notes relating to the Civil Penalty Scheme and the imposition of automatic checks to safeguard against large overpayments would be issued to the Committee Members shortly.

928 Urgent matters by reason of special circumstances

There were none.

929 Declarations of disclosable pecuniary interests

There were none.

930 External Audit Annual Audit Plan 2012/2013

Discussion:

Robert Grant from PKF, the Council's external auditor, provided an overview of the Annual Audit Plan 2012/2013, which was attached at Appendix 1 to the report. The plan summarised PKF's proposed audit work for the year, the significant risks that impact on their audit and their planned work in response to those risks.

It was noted that the Audit Commission's Code of Audit Practice for Local Government (March 2010) determined the overall scope of the work. This required PKF to review and report on the Council's:

- financial statements;
- arrangements for securing economy, efficiency and effectiveness in the use of resources.

Members were also advised that PKF (UK) LLP and BDO LLP were to merge in the spring of 2013 but were assured that there would be no change to Medway's Audit Team.

It was noted that the proposed audit fee for PKF's code audit work for the year was £207,460 plus VAT, which was £19,000 above the scale fee published by the Audit Commission. It was reported that the £19,000 was attributable to risks identified as part of the detailed risk assessment and the need to undertake detailed audit work in 2012/2013 on certain key financial systems. Members were advised however that the fee represented a significant reduction on last year and any other variation would be reported to the Committee.

During their consideration of this item, Members questioned the requirement to undertake a full valuation of heritage assets; specifically Members queried the value for money of undertaking such valuation works at a potential cost to the Council of £100,000. The Committee was advised of the requirements and guidance on accounting for heritage assets, which would inform the closure of the 2012/2013 accounts, together with the implications of the accounts being qualified if this were not undertaken. The Chief Finance Officer advised that he would consider this matter further and undertook to circulate further information to update the Committee on the issue. Due to the costs involved Members considered that a formal valuation of heritage assets should only be undertaken every 5 years and the Chairman was requested to highlight the Committee's concerns to the Local Government Association, requesting that representations be raised at a national level.

Decision:

The Committee accepted the proposed Annual Audit Plan for 2012/2013 and agreed that a full valuation of heritage assets should only be undertaken every 5 years.

931 External Audit's Grant Claim Report

Discussion:

The report and attached letter presented the certification of grant claims for 2011/2012 and set out the main issues found, the External Auditor's recommendations for improvement and management's response. It was noted that the Audit Commission required external auditors to report the outcome of the annual audit of grant claims and other Government returns to those charged with governance.

Kerry Barnes, from PKF, outlined the contents of the report, highlighting that in Medway the total value of such returns for the period ending 31 March 2012 was over £212 million. It was also noted that the fee for the audit of grant claims of £45,000 represented a reduction from the previous year.

Members were advised that the overall conclusion was that the Council's arrangements for the preparation and submission of returns were generally satisfactory, although some further work was required to ensure that all claims and returns fully complied with the Government requirements. It was noted that some amendments had to be made, such as errors in calculating entitlement to benefit across certain claimant types within the housing and council tax benefit subsidy claim. Members were informed that a qualification letter had been issued to the Department for Work and Pensions on the errors identified. The Government department was however now satisfied with the claim and it had been paid.

The Committee was also referred to an improvement plan that was presented as Appendix B to auditor's letter. This highlighted a number of actions that had been agreed with officers, including amended procedures and training.

Members considered the report, noting that the impact of the errors within the housing and council tax benefit subsidy claim amounted to a reduction in subsidy of £44,323, which needed to be considered within the overall context of a total claim of £119 million and data entries in the hundreds of thousands. In response to questions, the Committee was also informed that the level of errors was consistent with other local authorities, and that Internal Audit were undertaking audits of grant management and grant payments in the current year, and in 2013/14 financial year, to provide assurance on the procedures for managing grants with a value of less than £125,000.

Decision:

The Audit Committee accepted the External Auditor's Grant Audit Report for 2011/2012, including the proposed Action Plan to achieve further improvements to the accuracy of the grant claims submitted to government departments.

932 Covert Surveillance

Discussion:

This report set out details of an update to the Covert Surveillance Policy, which was originally agreed on 10 July 2012.

The Senior Lawyer outlined the contents of the report, giving details of the amendments to the policy agreed by Cabinet on 15 January 2013. It was noted that the policy had been amended in response to the requirements of the Protection of Freedoms Act 2012, which required local authorities to obtain judicial approval for the use of any of the three covert investigatory techniques available. A copy of the revised policy was attached at Appendix 1 to the report, highlighting the changes agreed by Cabinet.

The Senior Lawyer also gave details of the first application for judicial approval, which had been granted approval by a District Judge in December 2012.

During the discussion on this item Members requested a briefing note setting out details as to how the Council communicated the use of surveillance in investigations, such as on the Council's website, together with an indication of which teams within Council would use these provisions and how often. The Senior Lawyer also stated that it was her view that there was a paragraph numbering error within the policy, rather than a situation where information was omitted from the document however she undertook to confirm this.

In response to questions Members were advised that whilst the Magistrates Court would give approval for the use of these provisions, the use and therefore the risk of challenges arising from using covert surveillance remained with the Council.

A Diversity Impact Assessment screening form was undertaken on the original policy and it was considered that the existing screening covered the scope of the proposed amendments.

Decision:

The Audit Committee noted the amendments to the Covert Surveillance Policy, as set out in Appendix 1 to the report, and the observations made regarding risk.

933 Fraud Resilience Strategy

Discussion:

The Fraud Manager introduced the report, which provided an update on the progress made with the actions included within the Fraud Resilience Strategy. The strategy, which had been presented to the Audit Committee in March 2012, set out the Council's approach to increasing fraud resilience, and mitigating fraud vulnerability for the Council. It included an action plan for 2012 to 2014.

Appendix 1 to the report summarised progress made in the first 12 months of the strategy and also included a number of emerging fraud risks that had been identified through Audit Service activity and recent publications, such as Protecting the Public Purse Report 2012.

The Fraud Manager highlighted a number of areas within the update. This included the introduction of a dedicated fraud hotline and the discussions with officers from across the Council to determine what processes and structures needed to be in place prior to its launch, such as interactive voice response technology that would redirect callers to the appropriate team. Members were also referred to the work being undertaken on blue badges, which included one successful prosecution, four active investigations and ongoing consideration of the implications of The Disabled Persons' Parking Badges Bill that had received Royal Assent on 31 January 2013.

Members discussed the report in detail. Issues discussed included the:

- need to ensure that there are appropriate mechanisms in place for handling staff disciplinary investigations relating to potentially criminal investigations, including timely interviews in accordance with the Police and Criminal Evidence Act 1984;
- importance of standardised language, where possible, between the Member and officer declaration of interests schemes;
- inclusion of a review of the tools used to calculate mileage routes and distances in the planned assessment of mileage claims procedures;
- need to defer the planned audit of the Social Fund until the long term contract for the provision of the localised services had been awarded; and,
- importance of consistent terminology when referring to the council's 'anti-fraud' approach.

Responding to specific questions the Audit Services Manager advised that the audit of Disclosure and Barring Service (previously CRB) Audit had two strands; the first would look at process and the second compliance. The audits would include consideration of the implications of TUPE.

In response to concerns the Audit Services Manager agreed to include within future reports, a commentary as to the deliverability within the lifespan of the strategy of the general and service specific issues identified within the strategy.

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Members also requested a briefing note on progress with bringing forward the draft policy relating to money laundering, which it was noted was currently with legal services for comment.

Decision:

The Audit Committee noted the progress made on the Fraud Resilience Strategy and new emerging fraud risk areas and actions.

934 Internal Audit Work Programme

Discussion:

The Audit Services Manager introduced a report providing an 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 ten audits were at the draft report stage and that the plan was progressing in a timely manner. It was also noted that the Personal Budgets audit from the 2011/2012 work programme was still waiting to be finalised.

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.

935 Outcomes 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 three audits, one follow-up audit and one school probity review.

The Audit Services Manager advised Members that further consideration would be given to the definitions used by Internal Audit for the provision of an audit opinion and for determining the priority ranking for recommendations. This would be reported to Members in due course.

Members queried the findings within the Waste Collection and Disposal Contracts audit that few of the key performance indicators (KPIs) specified in either contract related to the actual delivery of the services provided. The Director of Regeneration, Community and Culture explained the background as to the award of the contracts and it was noted that officers were working with Veolia to develop additional KPIs to replace those that were not applicable; an

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opportunity to do this was provided by the variation to the contract to accommodate weekly collections of recycling and organic waste.

In relation to the Events Audit, the Committee considered how events were evaluated. It was also noted that a report on the events programme had been submitted to the Regeneration, Community and Culture Overview and Scrutiny Committee on 31 January 2013. Members stressed the importance of identifying measures to demonstrate the contribution of the events programme and cited other local authorities as examples of good practice. The Director of Regeneration, Community and Culture undertook to provide Members with a Briefing Note on the information that was currently obtained in order to evaluate the programme.

Decision:

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

936 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 third quarter of 2012/13.

The report also updated Members on the 2012/2013 National Fraud Initiative, the planned introduction of the Single Fraud Investigation Service, the new Council Tax Reduction Schemes (Detection of Fraud and Enforcement)(England) Regulations 2013, and details of the continuing work relating to allegations of blue badge and housing fraud. It was also noted that, following a request made at the last meeting, Appendix A to the report provided the Committee with additional details as to how long the fraudulent overpayment had been made.

Members were advised that in the third quarter there had been seven 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.

During the discussion on this item officers gave details of the Department of Work and Pensions led prosecution that had been acquitted (case number 11838/82412). Members requested that when available it would be helpful to receive trend analysis for the outcome of benefit investigations, beyond that for the previous year.

Decisions:

- (a) The Audit Committee noted progress in investigating benefit and other external fraud in accordance with the approved Anti Fraud & Corruption policy.
- (b) The Audit Committee noted the updates regarding the National Fraud Initiative and Localized Council Tax Support Scheme.

937 2013/2014 Internal Audit Annual Plan

Discussion:

The Audit Services Manager introduced this report on the proposed Internal Audit Plan for 2013/2014, as set out at Annex C to the report. The plan provided independent assurance to Medway Council on the:

- effectiveness of internal control;
- management of risk;
- probity and compliance with legal and regulatory requirements; and,
- appropriate pursuit of economy and efficiency.

Annex A to the report detailed how the proposed work programmes had been developed, Annex D outlined the coverage against the Corporate Risk Register and Annex E cross-referenced the plan with the council's key corporate systems

The Audit Services Manager highlighted that the 2013/2014 Plan did not include an Anti-Fraud and Corruption audit, which had previously been undertaken annually. This was due to the difficulty for Internal Audit in providing an independent and objective audit of the procedures in place for mitigating the risk of fraud, given the team's involvement in improving the level of fraud resilience across the Council. Members were informed that no other local authority in Kent undertook an annual Anti-Fraud and Corruption Audit and that assurances were provided through a number of other sources, such as the audits of financial systems, work undertaken by the Council's External Auditor and the reporting of delivery of the Fraud Resilience Strategy. Members were of the opinion that further consideration as to commissioning an external review to provide independent assurance on the Council's arrangements should be given at next year's review of the Audit Annual Plan.

Members also considered the importance of providing some flexibility within the plan, to be able to respond to unforeseen circumstances such as staff illness, and also the implications for the Council of establishing a joint venture company with Norse Commercial Services Limited.

Decision:

The Audit Committee approved the 2013/2014 internal audit programme.

938 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 13 (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.

939 Investigations Relating to Financial Irregularities

Discussion:

This report informed Members of the outcome of a recent investigation, which was set out at Annex A to the report.

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

Decision:

The Audit Committee noted the outcome of the irregularity investigations and requested further information as to the findings reported, which would be provided initially as a Briefing Note and then as a report to an additional meeting of the Committee.

Chairman

Date:

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