

**Medway Council**  
**Meeting of Audit Committee**  
**Thursday, 11 July 2013**  
**7.00pm to 9.35pm**

**Record of the meeting**

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

- Present:** Councillors: Mackness, Mackinlay (Chairman), Maple and Osborne
- Substitutes:** Councillors: Clarke (Substitute for Jarrett)
- In Attendance:** Robin Cooper, Director of Regeneration, Community and Culture  
Robert Grant, BDO (Council's External Auditor)  
Mick Hayward, Chief Finance Officer  
Perry Holmes, Assistant Director Legal and Corporate Services/Monitoring Officer  
Philip Honeybone, Principal Auditor  
Andy Larkin, Finance Support Manager  
Anthony Law, Democratic Services Officer  
Jonathan Lloyd, Principal Accountant  
Andy McNally-Johnson, Senior Accountant  
Alison Russell, Audit Services Manager

**172 Record of meeting**

The records of the meeting held on 9 May 2013 and the Joint Meeting of All Committees held on 15 May 2013 were agreed and signed by the Chairman as a correct record.

**173 Apologies for absence**

An apology for absence was received from Councillor Jarrett.

**174 Urgent matters by reason of special circumstances**

There were none.

**175 Declarations of disclosable pecuniary interests**

There were none.

## **176 Treasury Management Outturn Annual Report**

### **Discussion:**

The Finance Support Manager introduced the report that provided an overview of treasury management activity during 2012/2013.

The report covered a number of issues including the Council's treasury position as at 31 March 2013, borrowing activity in 2012/2013, performance measurement, the strategy for 2012/2013, the economy and interest rates in 2012/2013, borrowing and investment rates, the borrowing outturn, compliance with treasury limits and prudential indicators, investment outturn and debt rescheduling. The report provided comparative information against 68 other authorities participating in the CIPFA Treasury benchmarking exercise and benchmarking information from Sector, the Council's financial advisor.

The outturn for the prudential indicators, as contained in the Council's Treasury Strategy Statement, was set out at Appendix 1 in the report.

It was noted that overall, the Interest and Financing budget had made a surplus over its targeted budget of £1.068m. Due to continued low bank rates, which continued at 0.5% throughout 2012/2013, the overall rate achieved for investments averaged 1.46%.

Members were advised that the Cabinet had considered the annual outturn report on 9 July 2013 and recommended its approval to the Audit Committee. It was also noted that the Business Support Overview and Scrutiny Committee had considered this report on 20 June 2013. The Committee had requested that future reports include information on debt maturity analysis and requested that the mid-year review report includes information on the quantum of local authorities that use just in-house and a mixture of in-house and external fund manager services.

Members discussed the investment performance for 2012/2013, noting in particular that the rate of return on the funds managed internally had outperformed those managed externally. Officers advised of the Council's prudent approach to investments, where the initial priority was the security of capital and liquidity and then the achievement of optimum return (yield) on investments, and commented on the importance and opportunities of having funds managed externally as well as in-house. With reference to the Sector benchmarking model contained within the report, which demonstrated that the Council's in-house portfolio had performed well on a risk-adjusted basis, officers undertook to consider the investment strategy of the unitary authority whose return had been equal to the Council but whose inherent risks were lower.

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### Decision:

The Audit Committee, in accordance with the CIPFA Code of Practice, approved the Treasury Management Outturn Annual Report.

### 177 Statement of Accounts 2012/2013

#### Discussion:

The Finance Support Manager presented the Council's Statement of Accounts for 2012/2013, which were required under the Accounts and Audit Regulations 2003 (as amended).

A revision to the Comprehensive Income and Expenditure Statement and Directorate Income and Expenditure 2012/2013 was tabled at the meeting and the Finance Support Manager reported three typographical errors within the accounts, these being the figure £21,852 within the table in Note 33 to the accounts should read £21,952 and within the disclosure on Credit risk the amounts £6,503 million and £9,070 million should read £6.503 million and £9.070 million.

Members were advised that the accounts detailed a revenue surplus for 2012/2013 of £2.828 million. Capital expenditure for 2012/2013 amounted to £72.4 million with £6 million slipping to future years. The summary financial positions for both the Housing Revenue Account and Delegated Schools Budget were also reported, as were the principal variations to agreed budgets.

The Committee was advised that the accounts built upon the improvements made last year and included an expanded foreword, a full reconciliation between the Finance and Property Asset Registers and revaluation of some Heritage assets within the balance sheet. It was noted that to date three of the Council's heritage buildings had been valued and a 5-year rolling programme would revalue the rest of the Council's heritage assets at an estimated annual cost of £20,000.

Members discussed the contents of the Statement of Accounts and officers provided further clarification on:

- (a) the reported deficit on provision of services, as reported within the Comprehensive Income and Expenditure Statement;
- (b) the Council Tax base adjustments made for collection rates and Ministry of Defence properties;
- (c) funding for the Council Tax Reduction Scheme; and
- (d) the purpose of the Insurance Fund, which was used to meet potential and contingent liabilities in respect of insurance claims.

During the discussion on this item the Committee requested officers provide a briefing note explaining the movement during 2012/2013 of outstanding loans to staff and clarifying the inclusion of all termination benefits.

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It was noted that the Statement of Accounts would now be subject to scrutiny by the external auditors and reported back to Members in September. Interested parties also had the right to inspect the accounts and make representations to the External Auditor.

### **Decision:**

The Audit Committee approved the draft Statement of Accounts for 2012/2013 for submission to the External Auditor.

## **178 Outcomes of Internal Audit Activity**

### **Discussion:**

The Audit Services Manager introduced this report on the outcome of completed audit activity.

Members were advised that the audit of the control environment within two key financial systems and one governance area had been found to be good, with five other audits reported as satisfactory. An audit of the IWorld System, the system used to process council tax and non-domestic rates receipts and make benefit payments, had found that access controls were insufficient; although work was ongoing to address access and update IWorld job roles to allow more transparency of what tasks/actions users were able to do in the system. Summary information on all the completed audits was attached at Annex C to the report.

Further to discussion on the IWorld Audit, Members expressed their wider concern as to the possibility of staff having access to a number of systems, particularly as a consequence of the number of changes being made through the Better for Less reorganisation process. Members were advised that whilst an audit on change management had not been undertaken, it was the responsibility of line management to amend staff access, including levels of access, as appropriate.

In relation to the Parking Audit, Members noted the findings as to the effectiveness of controls and considered the management response that additional checks to verify the identity of applicants and use information available from other Council functions to judge eligibility were irrelevant, on the grounds that permits were issued to vehicles rather than individuals. Members expressed concern as to the abuse of residential and business parking permits and the Audit Services Manager advised that the lessons learnt from the work to strengthen the Council's response to blue badge fraud should be extended to the management of other parking permits. In relation to blue badges the Director of Regeneration, Community and Culture explained and raised concern as to the application of new powers for enforcement officers to challenge and retain blue badges and commented on the scale of the problem in Medway.

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Whilst considering the outcome of the Academies Audit, Members requested further information explaining the process involved in the transition of a school to academy status, including the Council's liabilities.

In response to questions concerning the Personal Budgets Audit, the Audit Services Manger highlighted that officers within Adult Social Care were working with those responsible for investigating fraud and reporting on the Council's fraud resilience, in order to mitigate the risk of fraud. Audit Services would report progress in this area either through the Fraud Resilience Strategy update, or through a formal audit follow-up report.

### **Decision:**

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

## **179 Internal Audit Annual Report**

### **Discussion:**

This report informed the Committee of the overall opinion for 2012/2013 based largely on internal audit's work. It was noted that the Annual Internal Audit Report, which was attached at Annex A to the report, would assist Members when considering the Annual Governance Statement.

The Audit Services Manager advised that overall the internal audit opinion of the central governance arrangements of the Council, along with the robust processes in place for managing key financial systems and the management response to issues identified in operational areas, were satisfactory.

Members noted the opinion that control arrangements in satellite sites and discrete business areas did represent an area of concern. The Audit Services Manager however advised that this was not a unique situation to Medway and that each individual site, did not represent a significant risk to the organisation.

During the discussion the Committee also noted the positive direction of travel on the follow-up audits undertaken in 2012/2013 and that a number of investigations had resulted in savings being made, as inappropriate financial arrangements were halted. It was reported that £263,653 had been recovered as a result of investigations and probity reviews during 2012/2013.

Further to questions relating to the Civic Centre fuel pumps follow-up audit, the Director of Regeneration, Community and Environment advised as to the resilience this facility provided and undertook to advise Members on its use by contractors, which would include details of the rates paid.

### **Decision:**

- (a) The Audit Committee noted Internal Audit's opinion on internal control for 2012/2013, as contained in Annex A to the report, and agreed to

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consider this report when considering the Annual Governance Statement.

- (b) The Audit Committee agreed that the Internal Audit team should be congratulated on their substantial and rigorous work during 2012/2013, as evidenced through the report.

### 180 Internal Audit Work Programme

#### Discussion:

The Audit Services Manager introduced this report providing an overview of the 2012/2013 and 2013/2014 internal audit work programme, together with details of probity and follow up work undertaken since the last Audit Committee Meeting.

#### Decision:

The Audit Committee noted the progress in completing the 2012/2013 programme, and the one remaining audit from 2011/2012. The Committee noted the initial progress on delivering the 2013/2014 audit plan and that all key assurance work had been completed to support the 2012/2013 Annual Governance Statement.

### 181 Effectiveness of the Internal Audit System

#### Discussion:

The Chief Finance Officer introduced a report on the effectiveness of the internal audit system. The Accounts and Audit Regulations required an annual review of the internal audit system and this formed part of the wider review of governance issues, leading to the approval of the Annual Governance Statement.

Members were referred to the assurances obtained and the key issues arising to ensure compliance from 2013/2014 onwards. An updated copy of the Audit Charter, a set of Key Performance Indicators and revised audit opinions and definitions were attached to the report.

The Committee considered the requirement and implications of the external reviews of internal audit every 5 years and were advised that how this might be procured and delivered was being considered by the Kent Audit Group.

#### Decisions:

- (a) The Audit Committee endorsed the approach to the review of effectiveness of the internal audit system for 2012/2013 and the outcome of the review, in support of the Committee's consideration of the Annual Governance Statement.

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- (b) The Audit Committee approved the Internal Audit Charter and noted the Internal Audit Key Performance Indicators.

### **182 Annual Governance Statement**

#### **Discussion:**

The Assistant Director Legal and Corporate Services introduced a report that presented the 2012/2013 Annual Governance Statement.

The statement (attached to the report) summarised and reviewed the effectiveness the Council's governance framework and key elements of internal control. The Committee was also referred to section 5 of the statement, which set out key areas for the Council to focus on. This included the continued challenges facing the Council following the reduction in Government grant funding, category management and the Better for Less programme.

In relation to the challenge of embedding the Council's new public health responsibilities, the Committee noted the need to ensure consideration was given by all services to improving and promoting public health. The Assistant Director Legal and Corporate Services advised how this was being taken forward, such as public health representation on Procurement Board, and undertook to discuss the matter of public health implications in reports further with the Deputy Director, Customer First, Democracy and Governance.

#### **Decision:**

The Audit Committee approved the draft Annual Governance Statement.

### **183 Investigations Relating to External Fraud**

#### **Discussion:**

The Audit Services Manager advised Members of progress in investigating allegations of Housing and Council Tax Benefit fraud and other external non-benefit fraud during the quarter ending 31 March 2013 and responded to Members' questions.

It was reported that there had been nine successful prosecutions and one administrative penalty. Details of these cases were set out in Annex A to the report. It was further noted that the Corporate Anti-Fraud Team in the fourth quarter of 2012/2013 had identified £205,954 of fraudulent overpayments of Housing and Council Tax benefit and £40,319 of Department for Work and Pensions paid benefit. As previously requested by the Committee, trend analysis for the last two years had been provided within the report.

During the discussion on this item, the Audit Services Manager clarified that the instance of cheque fraud, as set out in the report, had taken place over a short period of time. The full amount had been returned to the school and officers were satisfied that appropriate management action had been taken.

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The Committee also noted and commended the prosecution reported in Annex A where a fraudulent attempt had been made to claim for Housing Benefit but no overpayment had been made, as the fraud had been identified at the initial claim stage.

### **Decision:**

The Audit Committee noted progress in investigating benefit fraud in accordance with the approved Anti Fraud and Corruption Policy.

### **184 External Audit Planning Letter 2013/2014**

#### **Discussion:**

Robert Grant, Engagement Lead at the Council's external auditor BDO LLP, introduced the External Audit Planning Letter. This was required under International Standards on Auditing and included details on the proposed fees and programme of work for 2013/2014.

It was noted that the overall scope of the work was determined by the Audit Commission's Code of Audit Practice and detailed plans drawn up by BDO in accordance with their risk based approach.

During the discussion of this item, the Engagement Lead assured Members that there would be no change in the approach or the external audit team following the recent merger of PKF with BDO.

#### **Decision:**

The Audit Committee accepted the proposed annual audit plan for 2013/2014.

### **185 Disbursement of Recovered Funds**

#### **Discussion:**

The Chief Finance Officer advised Members of the recovery of funds that had been misappropriated from Temple Mill Primary School and the options available for its disbursement. The Audit Committee was asked to recommend a favoured option to the Cabinet, which would ultimately agree the disbursement of the recovered £170,999.

Members considered the four options outlined in the report, which included: returning the total amount to Temple Mill Primary School, transferring the money to the General Fund, disbursing it across all Medway schools or, setting up a dedicated fund to provide training on governance issues for headteachers and governing bodies of all Medway schools. The Chief Finance Officer recommended to the Committee the final option of providing a programme of training.



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During the discussion of this item it was noted that the Chairman of Governors at Temple Mill Primary School had written to the Chief Finance Officer and, more recently, the Chairman of the Audit Committee requesting that the money be returned to the school. In response to Members' questions, officers assured Members that the decision regarding the disbursement of these recovered funds was a matter for Medway Council.

Members supported the provision of training on governance issues to reduce the risk of a similar fraud occurring elsewhere in Medway and discussed the potential extent of this training; whether it be extended to all schools in Medway, including academies.

### **Decision:**

- (a) The Audit Committee noted the recovery of the funds misappropriated from Temple Mill Primary School and recommend to Cabinet option 4 in the report (set up a ringfenced fund to provide training on governance issues for headteachers and governing bodies of all Medway Schools).
- (b) The Audit Committee recommended to Cabinet that the Director of Children and Adults submits a report to Cabinet, via the next meeting of the Audit Committee, on the proposed programme of training to be delivered by these funds.

## **186 Information Governance Policies**

### **Discussion:**

The Assistant Director, Legal and Corporate Services updated the Committee on work to provide an improved set of policies and guidance for managers, so to enable the appropriate handling of data protection and freedom of information requests as well as the handling of information generally.

The Council's responsibilities as a holder of personal and general information were set out and Members were advised of a number of measures in place to protect the security of data. This included the establishment of a Security and Information Governance Group, consisting of officers from across the Council and chaired by the Senior Information Risk Officer. This group had developed a suite of documents that were currently the subject of consultation with officers, this included policies and guidance on data protection, freedom of information, environmental information regulations and records management.

Appendix 1 to the report set out how the proposed information governance framework, that included oversight by the Audit Committee and Corporate Management Team, would work.

Members stressed the importance of these documents reflecting the needs and issues associated with the Council's satellite sites. In response to Members' questions, the Assistant Director, Legal and Corporate Services also undertook to clarify the use of 'medway.gov.uk' email addresses by Councillors.

**Decision:**

The Audit Committee noted the work to produce a suite of policy and guidance documents relating to information governance.

**187 Anti-Money Laundering Policy**

**Discussion:**

The Assistant Director, Legal and Corporate Services introduced this report setting out a proposed Anti-Money Laundering Policy.

Members were advised that the Council was committed to ensuring there were appropriate and proportionate anti-money laundering safeguards to prevent, where possible, the organisation and its staff being exposed to money laundering. The policy, attached at Appendix A to the report, identified the legal and regulatory framework, corporate and employee responsibilities, key risks and prevention methods and identified the Chief Finance Officer as the nominated officer for anti-money laundering. It was also noted that the policy would apply to all employees and would be promoted to partners and suppliers.

It was proposed that the Anti-Money Laundering Policy be included within the Constitution alongside pre-existing policies and procedures, which together provide protection against financial impropriety. During the discussion of this item, Members considered the collation of this and the existing policies and procedures within a single policy relating to Financial Crime, which had been the case elsewhere. Members were advised that the Council's overarching policy was the Anti-Fraud and Corruption Policy but the Assistant Director, Legal & Corporate Services undertook to consider this further.

**Decision:**

The Audit Committee referred the Anti-Money Laundering Policy, as set out in Appendix A to the report, to Council for approval and inclusion within the Constitution.

**188 Changing the Contract Procedure Rules and Processes in Medway**

**Discussion:**

The Assistant Director, Legal and Corporate Services introduced a report that provided an overview of changes proposed to the Council's Contract Procedure Rules to reduce red tape and encourage and support new and existing suppliers to the Council.

Members were advised that encouraging and supporting a diverse and competitive marketplace of suppliers (in particular Small and Medium Enterprises) was key to the Council delivering Best Value and supporting local businesses and development where possible. A series of changes were

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proposed that would be implemented in two phases during the current financial year and the first phase, relating to process and procedures, was outlined within the report.

The options of continuing to use the existing or revised procedures and processes were outlined in the report, together with details of implementing eTendering software and changes to the Council's Contract Procedure Rules.

As the Contract Procedure Rules were a matter for Council to agree as part of the Constitution the Audit Committee were requested to commend this report to Full Council on 25 July 2013.

### **Decision:**

The Audit Committee recommended the revised Contract Procedure Rules, attached at Appendix C to Full Council for consideration and approval on 25 July 2013.

## **189 Annual Review of Terms of Reference**

### **Discussion:**

The Democratic Services Officer introduced a report on a review of the Committee's terms of reference. It was noted that it was practice for the Committee to annually review the terms of reference to see whether any amendments were needed. It was reported that the only proposed change related to the Audit Committee receiving reports in line with the Anti-Money Laundering Policy, which had been presented elsewhere on the agenda.

The proposed change was shown in Appendix A to the report.

### **Decision:**

- (a) The Audit Committee noted the Committee's current terms of reference and including proposed revision and confirmed that they meet current and expected future needs.
- (b) The Audit Committee recommended to Council the proposed amendment to the Committee's terms of reference, as set out in Appendix A to the report.

## **190 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 19 (Investigations Relating to Financial Irregularities) because consideration of this matter in public would disclose information falling within paragraphs 1, 2 and 7 of Part 1 of Schedule 12A to the Local Government Act 1972 as specified in

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agenda item 20 (Exclusion of Press and Public) 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.

### **191 Investigations Relating to Internal Financial Irregularities**

#### **Discussion:**

The Audit Services Manager introduced a report that set out the outcome of a recent internal investigation. The report also set out details of the Committee's discussion on 9 May 2013 and updated Members on actions completed since that meeting.

Members considered the information as set out.

#### **Decision:**

- (a) The Audit Committee noted the outcome of the irregularity investigations and the actions taken, as set out in the exempt appendix.
- (b) The Audit Committee noted the record of the discussion as set out at Annex B to the report.

**Chairman**

**Date:**

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