

Medway Council
Meeting of Audit Committee
Wednesday, 25 September 2013
7.00pm to 8.26pm

reconvened for the consideration of agenda item 5 (Annual
Governance Report 2012/2013 only) on

Friday, 27 September 2013
4.00pm to 4.28pm

Record of the meeting

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

Present: 25 September 2013

Councillors: Jarrett, Mackness, Mackinlay (Chairman), Maple
and Osborne

27 September 2013

Councillors: Mackness, Mackinlay (Chairman) and Maple

In Attendance: 25 September 2013

Kerry Barnes, BDO (Council's External Auditor)
Robert Grant, BDO (Council's External Auditor)
Mick Hayward, Chief Finance Officer
Perry Holmes, Assistant Director Legal and Corporate
Services/Monitoring Officer
Joy Kirby, Quality Assurance and Client Manager
Andy Larkin, Finance Support Manager
Anthony Law, Democratic Services Officer
Jonathan Lloyd, Principal Accountant
Graham Matthews, Principal Auditor
Andy McNally-Johnson, Senior Accountant
Alison Russell, Audit Services Manager

27 September 2013

Jody Etherington, BDO (Council's External Auditor)
Robert Grant, BDO (Council's External Auditor)
Mick Hayward, Chief Finance Officer
Andy Larkin, Finance Support Manager
Anthony Law, Democratic Services Officer
Jonathan Lloyd, Principal Accountant

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Andy McNally-Johnson, Senior Accountant
Christine Wilson, Head of Legal Services

384 Record of meeting

The record of the meeting held on 4 September 2013 was agreed and signed by the Chairman as a correct record.

385 Apologies for absence

25 September 2013

There were none.

27 September 2013

Apologies for absence were received from Councillors Jarrett and Osborne.

386 Urgent matters by reason of special circumstances

There were none.

387 Declarations of disclosable pecuniary interests

There were none.

388 Review of Risk Management

Discussion:

The Quality Assurance and Client Manager updated the Audit Committee on progress with the Council's risk management activities.

Members were advised that the 2012/2013 Risk Management Audit had confirmed that the Council's risk management arrangements were compliant with the Risk Management Strategy (attached at Appendix A to the report). It had however identified three 'medium priority' recommendations that remained outstanding from the previous audit. The Quality Assurance and Client Manager updated the Committee as to the implementation of these recommendations; insofar that:

- the Strategic Risk Management Group now included a representative from the Children and Adults Directorate,
- managers had been reminded that risks identified in service/divisional plans should be reported as part of the service manager and assistant director quarterly reporting process, and
- the incorporation of risk within service manager Covalent training.

Decision:

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

389 Whistleblowing Report on Instances September 2012 - September 2013

Discussion:

The Monitoring Officer introduced a report that advised Members of three concerns raised under the Whistleblowing Policy between September 2012 and September 2013. The outcome of these instances was set out in the report.

It was noted that the requirement to report annually 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.

Members considered the whistleblowing reporting process and whether the number of instances being raised under the policy was appropriate, given the size of the organisation. The Monitoring Officer assured Members that the Council's procedures appeared to be working appropriately and that employees may be raising issues through other mechanisms, such as directly with their line manager.

In response to questions as to how the policy applied to new forms of service delivery, such as the joint venture company established between Medway Council and the public-sector owned company Norse, the Monitoring Officer advised that non-council staff were able to raise issues under the Whistleblowing Policy and had done so previously. He would however ensure this was embedded in the new arrangements.

Following discussion as to whether it was necessary to provide a dedicated whistleblowing telephone line, the Monitoring Officer undertook to discuss with the Assistant Director, Organisational Services the feasibility of incorporating a whistleblowing number into the Care First service when it is retendered.

Decision:

The Audit Committee noted the report.

390 Corporate Fraud

Discussion:

The Audit Services Manager introduced this report that informed Members of matters relating to corporate fraud, including outcomes of investigations, fraud referrals received by Audit Services, and twice yearly updates on the Fraud Resilience Strategy.

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In relation to the external investigations, reported in Annex A to the report, the Audit Services Manager advised that the Department for Work and Pensions had led a number of prosecutions, which were prosecuted by the Crown Prosecution Service. The outcome from three of these cases, where the prosecution had been unsuccessful, was highlighted. Members also sought clarification and considered the nature of tagging orders, which had been awarded in a number of 'living together' cases.

In response to Members' questions officers advised that criminal investigations relating to Blue Badge fraud were undertaken and prosecuted by Medway Council. It was also noted that a number of operational and technical issues needed to be resolved ahead of the launch of the dedicated fraud hotline and that the Council's Council Tax payments technology was compliant with the Payment Card Industry (PCI) Data Security Standard.

Following the discussion of this item the Audit Services Manager undertook to clarify which financial institutions the Council used to create saving accounts for foster children, as referenced within Annex C to the report, and also to explore whether calls from the dedicated fraud hotline could display the hotlines number, given concerns that some people did not answer withheld numbers.

Decision:

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

391 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 control environments considered as part of the Medway Innovation Centre, National Fraud Initiative, and Debtors Income audits had all been found to be 'sufficient'. Four school probity reviews, four income/grant site reviews and a further governance audit on the Council's Carbon Reduction Commitment were also reported. The Committee was advised that a number of audits had progressed satisfactorily since the publication of this report and would be reported at the next meeting.

Members considered the summary information provided on all the completed audits, which was attached at Annex B to the report. The progress made at the Medway Innovation Centre, in addressing actions identified following an earlier investigation, was welcomed.

Responding to Members' questions the Audit Services Manager advised that an audit of Norse was included within the 2013/2014 Audit Plan, which could consider the receipt of income by the joint venture company. Benchmarking on

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the National Fraud Initiative would also be possible when the Audit Commission had published a report on the 2012/13 NFI exercise in 2014.

Decision:

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

392 Internal Audit Work Programme

Discussion:

The Audit Services Manager introduced a report providing an overview of progress in delivering the approved 2012/2013 and 2013/2014 work programme, and probity and follow up work undertaken since the last meeting of the Audit Committee.

It was noted that Cabinet on 1 October 2013 would consider the Audit Committee's recommendations for the disbursement of the recovered funds that had been misappropriated from Temple Mill Primary School. These recommendations included a proposal to create an Internal Audit Post to provide internal audit support for schools for one year. Subject to Cabinet's agreement of this recommendation, the work programme would be revised and reported to Members in due course.

The Audit Services Manager clarified that the remit of the Foster Care audit, which was currently being undertaken, was to review Disclosure and Barring Service (DBS) and data protection issues.

Decision:

The Audit Committee noted the progress in completing the 2012/2013 and 2013/2014 audit programmes.

393 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 11 (Investigations Relating to Financial Irregularities) because consideration of this matter in public would disclose information falling within paragraphs 3 and 7 of Part 1 of Schedule 12A to the Local Government Act 1972 as specified in agenda item 12 (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.

394 Investigations Relating to Internal Financial Irregularities

Discussion:

The Audit Services Manager introduced a report that set out the outcome of recent internal investigations.

Members considered the information as set out and officers responded to Members' questions as they related to the individual cases and to the financial/audit support provided by the Council to organisations, such as academies and free schools.

Decision:

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

395 Annual Governance Report 2012/2013

Discussion on 25 September 2013:

Robert Grant from BDO, the Council's external auditor, provided an overview of the external auditor's report. This included 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. This item was considered in open session on 25 September 2013 (and on 27 September 2013).

A revised version of the Statement of Accounts, from that considered by the Committee in July 2013, was tabled at the meeting.

Members were advised that whilst the audit had not identified any material misstatements in the financial statements, a number of non-material misstatements had been identified and details of these were given. This included a number of errors that affected fixed asset disclosures, the treatment of Housing Revenue Account Income and Expenditure and the need to adjust the amount payable to the national non-domestic rates (NDR) pool. The Committee was updated as to progress of a number of outstanding matters and advised that having largely completed their audit work, in respect of the financial statements, it was anticipated that an 'unqualified' opinion would be issued. The Chief Finance Officer advised that, as a consequence of the adjustments made to the financial statements, further work was needed to correct the Cash Flow Statement.

Robert Grant (BDO) reported that the auditor had identified areas with significant deficiencies in internal control. These related to payroll and Care Director - the Council's adult social care information system. In relation to 'use of resources' a number of issues were noted by the external auditor, such as the Council's effective arrangements for financial governance, financial planning and financial control and the Council's arrangements for managing its budgets. It was noted that the auditor was satisfied with the Annual

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Governance Statement and would be issuing an 'unqualified' value for money conclusion.

Members were informed that a local elector had objected to the financial statements and it was noted that the external auditor had completed his work and would be notifying the elector of his conclusions.

The Committee considered the external auditor's report noting a number of issues identified, such as the value for money conclusion and the comments relating to the corporate procurement arrangements and savings from the Category Management programme. It was also clarified that the £34million resource gap reported for 2015/16 within the auditor's report was a cumulative figure, as opposed to a specific gap for that financial year.

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.

Members were mindful of the need to review the revised documents tabled at the meeting and also for the external auditor to review the final adjustments made, before being able to approve the Statement of Accounts.

Decision on 25 September 2013:

The Audit Committee agreed to adjourn the meeting of 25 September 2013 to 27 September 2013 at 4 pm in the Civic Room, Gun Wharf. This was to provide Members the opportunity to consider the Statement of Accounts that were tabled at the meeting and enable the external auditor to review the final adjustments that had been made to the accounts.

Discussion on 27 September 2013:

The Audit Committee was reconvened where it considered the Statement of Accounts, that had been tabled on 25 September 2013, and a revised section F 'Principal Financial Statements' and changes to section G 'Notes to the Principal Financial Statements' which had been tabled at the reconvened meeting. These documents highlighted where changes had been made to the accounts.

Robert Grant (BDO) and officers advised the Committee of the adjustments made to the accounts since they had been tabled at the meeting on 25 September 2013. It was noted that the majority were attributable to the treatment of schools within the accounts. Other issues highlighted related to the removal of £1.3million from the balance sheet, following a further review of leases, and a balancing item in the cash flow statement.

The Chief Finance Officer advised Members of a subsequent amendment made to the Management Representations Letter, Appendix VII of the Annual Governance Review, to reflect the position with the Cash Flow Statement.

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Members were also informed that a disclosure note relating to the Housing Revenue Account (HRA) would need to be added to the accounts. This would refer to a decision taken earlier on 27 September 2013, under urgency provisions, to move £2million from the HRA Reserve to the Council's General Fund.

The external auditor and officers responded to Members' questions on the accounts, as amended. This included clarification on the reporting of termination benefits and the depreciation of the Council's property portfolio. In response to questions as to the value for money conclusion the external auditor advised that the governance structure within the Children and Adults directorate was a matter for the Council and would be reviewed by Ofsted.

The Audit Committee was advised that the external auditor anticipated that an 'unqualified' opinion would be issued on the Statement of Accounts. He would write to the Audit Committee confirming the position on 30 September 2013.

Decisions on 27 September 2013:

- (a) The Audit Committee noted the issues raised and judgements made by the external auditor, as presented in Appendix 1 of the report, and agreed the proposed response as set out at Appendix IV to the Annual Governance Review.
- (b) The Audit Committee agreed the revised Statement of Accounts tabled on 25 September 2013 and amended on 27 September 2013, subject to the inclusion of a further disclosure note relating to the transfer of £2million from the Housing Revenue Account Reserve to the Council's General Fund.
- (c) The Audit Committee agreed the Management Representations Letter, attached at Appendix VII of the Annual Governance Review, as amended to include the following:

"Uncorrected balancing item – cash flow statement

We have considered the balancing item in the cash flow statement as highlighted in your report, together with the explanations provided by the Chief Finance Officer for not correcting the item, and we consider the matter to be immaterial to the view given by the financial statements."

Chairman

Date:

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