

**Medway Council**  
**Meeting of Audit Committee**  
**Tuesday, 26 November 2013**  
**7.00pm to 9.00pm**

**Record of the meeting**

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

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

**In Attendance:** 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  
Alison Russell, Audit Services Manager  
Janice Wellard, Fraud Manager

**569 Record of meeting**

The record of the meeting held on 25 September 2013 (reconvened on 27 September 2013) was agreed and signed by the Chairman as a correct record.

**570 Apologies for absence**

There were none.

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

There were none.

**572 Declarations of disclosable pecuniary interests**

Disclosable pecuniary interests

There were none.

Other interests

Councillor Maple declared an interest in agenda item 11 (Investigations Relating to Internal Financial Irregularities) as, in his capacity as a Ward Member, he had knowledge of the individuals concerned in the first case reported within the exempt appendix.

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Councillor Jarrett declared an interest in agenda item 5 (Treasury Management Strategy Mid-Year Review Report 2013/2014) as he had a friend that worked for Svenska Handelsbanken. The company, which is included within the approved list of counterparties, was referenced within the report.

### **573 Treasury Management Strategy Mid-Year Review Report 2013/2014**

#### **Discussion:**

The Finance Support Manager introduced the mid year review of the Treasury Management Strategy 2013/2014 and treasury performance. This had been prepared in compliance with CIPFA's Code of Practice on Treasury Management.

The report gave details of the economic position in the first six months of 2013/2014 and a review of the Treasury Management Strategy Statement and Annual Investment Strategy. Details of the Council's investment portfolio and borrowing strategy for 2013/2014 was set out, together with a mid year review of the debt rescheduling undertaken and compliance with Treasury and Prudential Limits for 2013/2014. Members were also advised that the council's budgeted investment return for 2013/2014, as stated in 5.7 of the report, should read £638,000.

The Committee considered the circa £23million that was externally managed by Investec Asset Management. It was noted that the performance of the portfolio to 30 September 2013 had been poor, with a loss from 31 March 2013 of 0.063%. Comparable investment performance data also highlighted that the in-house team had outperformed Investec Asset Management in nine out of the last ten years. Members discussed the performance of the market, the different approaches between the public and private sector to risk, and the latest benchmarking information. The Committee noted that the number of local authorities utilising the services of fund managers had decreased and the impact of moving the Investec Portfolio in-house was considered; this included the impact of an ongoing review of finance structures within the Council and the risks associated with a less diversified portfolio.

The Committee supported the controlled withdrawal of funds to the in-house team, which with support from the Council's financial advisor Sector would minimise the risk of further losses. Members requested that the report to Cabinet provide further information as to the capacity of the in-house team to expand its portfolio.

Members considered the breach with treasury and prudential limits that was set out in the report. It was noted that an investment had been made that, whilst not breaching the counterparty limits contained within the Treasury Management Strategy, exceeded more stringent internal criteria. Members were advised that procedures had been reviewed and that the technical breach did not have an adverse impact on the Council's portfolio.

It was noted that this report would have ordinarily been submitted to the Business Support Overview and Scrutiny Committee but it had been submitted

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to the Audit Committee on this occasion, in order to relieve pressure on the overview and scrutiny committee's work programme. The Committee supported the submission of this report to the Audit Committee and were informed that officers were considering the future reporting arrangements for treasury reports.

### **Decision:**

- (a) The Audit Committee noted the report.
- (b) The Audit Committee recommended to Cabinet that the Chief Finance Officer commence discussions with Investec Asset Management to enable the movement of the portfolio managed by Investec Asset Management to the in-house team.

## **574 Annual Audit Letter 2012/2013**

### **Discussion:**

This report presented the Annual Audit Letter for 2012/2013, 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 2013 and related to their responsibilities in both finance and governance matters. It was noted that BDO's detailed findings and recommendations had been reported to the Audit Committee on 25 September 2013 within the Annual Governance Report.

Robert Grant from BDO, the Council's external auditor, provided an overview of the external auditor's report. Members were advised that the Council had been issued an unqualified opinion on the Council's financial statements and BDO was satisfied that the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. An unqualified value for money conclusion had also been issued, which highlighted a significant matter by exception, because Ofsted had judged aspects of Children's Services to be inadequate. Members were also advised that the audit of the Whole of Government Accounts return had been completed, albeit after the Government's deadline, and that the external auditor's were still addressing an objection made by a local elector to the financial statements.

In response to Members' questions, the external auditor advised that he was aware of five local authorities that had moved resources from their Housing Revenue Account Reserve to their General Funds and that his advice on this matter had been previously published, alongside the report on this matter. Responding to questions as to the Council's level of reserves he advised that whilst comparison between authorities was difficult, due in part to different attitudes to risk, he was aware that other authorities were reducing their level of reserves.

### **Decision:**

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

**575 Single Fraud Investigation Service (SFIS)**

**Discussion:**

The Fraud Manager introduced a report setting out proposals for the introduction of a national Single Fraud Investigation Service (SFIS) within the Department for Works and Pensions (DWP) and the impact this might have on Medway Council.

Members discussed the current proposals and expressed their concerns as to the current proposals for the introduction of the national SFIS. This included:

- the likely impact on the Council's investigative resource,
- the current recommendation that the SFIS should be introduced as a single organisation within the DWP, which varied from the initial intention that staff would remain employed by local authorities but work under DWP policy and procedures,
- the need for delay until the introduction of Universal Credit,
- the separation of investigations into Welfare Benefits and Council Tax Reduction Schemes,
- the impact on joined up working arrangements.

It was noted that a letter from the Council's Chief Finance Officer, highlighting the Council's concerns, had been sent to Lord Freud, Parliamentary Under-Secretary for Welfare Reform and copied to the local MPs. A copy of the letter was attached to the report together with the response.

**Decision:**

- (a) The Audit Committee noted the current Department of Works and Pensions recommendations and the potential impact on the Corporate Anti-Fraud Team within Audit Services.
- (b) The Audit Committee agreed that the Chairman of the Audit Committee write to Lord Freud, Parliamentary Under-Secretary for Welfare Reform, expressing the Audit Committee's concerns with the current proposals for the introduction of the Single Fraud Investigation Service.
- (c) The Audit Committee agreed that the Chairman of the Audit Committee write to Councillor Sir Merrick Cockell, Chairman of the Local Government Association, seeking clarification on the Local Government Association's position with the implementation of the Single Fraud Investigation Service.

**576 Internal Audit Work Programme**

**Discussion:**

## **Audit Committee, 26 November 2013**

The Audit Services Manager introduced this report providing an overview of the 2013/2014 internal audit work programme, together with details of audit outcomes completed since the last Audit Committee Meeting.

Progress in delivering the 2013/2014 programme was given. It was noted that three additional/replacement audits had been included within the programme and that the capital projects audit would be deferred to 2014/2015. Members were also informed that a consultant, beginning in January 2014, would assist in the delivering the escalated programme of school probity audits.

In relation to the audits completed since the last meeting, Members were advised that the audits relating to local business rates and the disclosure and barring service audit, as well as follow up audits concerning waste management and HR data security had all been found to be sufficient. The findings of two School Probity Reviews and three income reviews was also reported; along with the SUCCES audit, which formed part of a series of grant payment reviews. Summary information on all the completed audits was attached at Annex B to the report.

Members considered the audits and the audit opinions given. This included the introduction of revised waste management KPIs for monitoring contractor performance and the findings from the two school probity audits and the importance of reviewing controls across all component parts when a school(s) and children's centre is federated.

In relation to school probity reviews generally the committee was advised that, overall, officers considered the administration of financial affairs within schools to be improving. It was also noted that the schools finance manual was currently being updated and that a forthcoming report from Deloitte UK regarding fraud risk in schools would be used to bring forward a programme of further improvements. The Audit Services Manager undertook to provide a briefing note outlining the key findings of the school probity reviews to date.

In response to Members' concerns regarding the findings from the Disclosure and Barring Service review the Audit Services Manager undertook to provide an update to the next meeting of the committee on progress. The Audit Services Manager also undertook to provide a briefing note, ahead of the next meeting, on the findings of the Foster Care (disclosure and barring service and data protection) audit.

### **Decision:**

The Audit Committee noted progress on the 2013/14 audit programme, including the three additional audits and the proposed deferment of one audit, and the outcome of Internal Audit's work.

## **577 Corporate Fraud**

### **Discussion:**

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The Audit Services Manager introduced a report informing Members of matters relating to corporate fraud, including outcomes of investigations and fraud referrals received by Audit Services.

In relation to the first National Fraud Initiative exercise that matched housing benefit against Medway payroll, Members were advised that there had been two reports which, to date, had identified 14 errors and 3 frauds. Enquiries were ongoing in relation to a further 70 employees. The report outlined the action being taken to emphasise the Council's stance on employee fraud and the Audit Services Manager advised that consideration would be given to other locations, in addition to "self-serve4you", to remind that it was the duty of all Medway residents, including staff, to inform the relevant department of a change in their circumstances.

Members welcomed the work that was being undertaken to support the introduction of the Fraud Hotline by the end of November 2013 and were assured that this would be publicized both internally and externally to the council.

The Committee was also advised that there had not been any incidents to report under the Council's Anti Bribery Policy. It was noted that there was a requirement to report annually to the Committee on incidents raised under the policy and that in future information would be presented to the July meeting, alongside the whistleblowing and money laundering annual reports.

### **Decision:**

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

## **578 Public Sector Internal Audit Standards**

### **Discussion:**

The Audit Services Manager presented a report on the Public Sector Internal Audit Standards and the implications for the council.

The Standards, that were attached to the report, had been adopted on 1 April 2013 and were designed to provide for the public sector a single standard which:

- defined the nature of internal auditing
- sets basic principles for carrying out internal audit
- established a framework for internal audit which adds value to the organisation
- established the basis for evaluation of internal audit performance.

The requirement for an external review of internal audit once every five years was highlighted and Members were referred to the timetable set out in the report.

### **Decision:**

This record is available on our website – [www.medway.gov.uk](http://www.medway.gov.uk)

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The Audit Committee noted the revised requirements, as set out in the report.

### **579 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 2, 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.

### **580 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.

#### **Decision:**

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

### **Chairman**

#### **Date:**

**Anthony Law, Democratic Services Officer**

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