

**Medway Council**  
**Meeting of Audit Committee**  
**Thursday, 20 March 2014**  
**7.00pm to 8.57pm**

**Record of the meeting**

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

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

**Substitutes:** Councillors:  
Griffiths (substitute for Councillor Osborne)  
Adrian Gulvin (substitute for Councillor Jarrett)

**In Attendance:** Neil Davies, Chief Executive  
Perry Holmes, Assistant Director Legal and Corporate Services/Monitoring Officer  
Anthony Law, Democratic Services Officer  
Graham Matthews, Principal Auditor  
Alison Russell, Audit Services Manager  
Phil Watts, Finance Manager, Children & Adult Services  
Janice Wellard, Fraud Manager  
Robert Grant, BDO (Council's External Auditor)

**920 Record of meeting**

The record of the meeting held on 26 November 2013 was agreed and signed by the Chairman as a correct record.

In relation to minute 575(c)(Single Fraud Investigation Service (SFIS)) the Committee requested that officers pursue the clarification requested, as to the Local Government Association's position with the implementation of the Single Fraud Investigation Service.

**921 Apologies for absence**

Apologies for absence were received from Councillors Jarrett and Osborne.

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

There were none.

**923 Declarations of disclosable pecuniary interests and other interests**

Disclosable pecuniary interests

There were none.

Other interests

There were none.

**924 External Audit Grant Claim Report**

**Discussion:**

This report and attached letter presented the work undertaken by BDO LLP, the Council's external auditor, in respect of the certification of grant claims for 2012/2013. This included details of the main issues found, the external auditor's recommendations for improvement and management's response.

Robert Grant (BDO LLP) outlined the contents of the report, advising 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. He highlighted that the total value of the returns exceeded £220.4 million and that these had been submitted to the relevant government departments within appropriate timescales. The improvements in the Teachers' Pensions Return from last year were noted.

It was reported that the fee for the audit of grant claims of £23,950 represented a reduction from the previous year and the Committee was referred to the improvement plan, set out at Appendix II to auditor's letter. This highlighted a number of actions that had been agreed with officers.

In response to Members' questions, the external auditor explained that overall a small number of errors had been identified, principally relating to classification issues, which had required them to issue qualification letters. The Committee was, however, assured that the errors identified had no impact on claimants and that in the case of the Housing and Council Tax Benefit Subsidy Claim the Council's subsidy had actually increased by £40,097 because of the qualification issues. It was also noted that external audit had worked with the Council's finance team on the working papers used to compile these claims.

**Decision:**

The Audit Committee noted the external auditor's grant audit report for 2012/2013 including the proposed Action Plan to achieve further improvements to the accuracy of the grant claims submitted to government departments.

**925 External Audit Fee**

**Discussion:**

This report and attachment set out the external auditor's fees for 2012/2013, together with the proposed fees and programme of work for the 2014/2015 financial year.

It was reported that the final fee for the audit of the 2012/2013 financial statements amounted to £209,460 and the fee letter (attached at Appendix A to the report) set out an analysis by audit area. Robert Grant (BDO) highlighted that further additional work identified in the Annual Governance Report had been confirmed with the Audit Commission and the supplementary fee set at £21,000, which represented an increase of £2,000 against the planned fee.

The external auditor referred to the proposed Fees and Programme for 2014/2015, as set out in Appendix B to the report. He reported that the proposed audit fee for 2014/2015 of £188,460 reflected the Audit Commission indicative scale fee. It was also noted that the proposed certification fee (£14,900) may be amended following a review of requirements by the Audit Commission that was currently underway.

In response to Members' questions, the external auditor advised the Committee as to award of the contracts for audit services before and after the Audit Commission was due to cease at the end of March 2015. The Committee also considered the additional fee of £6,210 for 2012/2013, which related to the investigative work associated with an objection received from a local elector to the statements of accounts.

**Decision:**

- (a) The Audit Committee noted the final External Auditor's 2012/2013 fee and the proposed fees and programme of work for the 2014/15 financial year.
- (b) The Audit Committee requested a briefing note providing details of the reported objection to the statements of accounts from the local elector.

**926 External Audit Plan**

**Discussion:**

This report set out the audit plan for the Council's external auditor for 2013/2014 and Robert Grant (BDO) provided an overview of the 2013/2014 Plan, which was attached at Appendix 1 to the report. The plan set out details of the key reports, opinions and conclusions that would be provided by BDO, the Council's external auditor, for the year.

Members were advised of the significant risks that could affect the audit. In relation to the financial statements these risks related to:

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- the potential management override of controls,
- fraud and error in revenue recognition,
- the high number of non-material audit adjustments to property, plant and equipment and related transactions in the prior year accounts,
- changes to the CIPFA code for the valuation of property, plant and equipment,
- the high number of non-trivial errors in the prior year accounts.

In relation to the external auditor's value for money conclusion, the Committee was advised that the potential risks that could impact on their audit related to financial planning and savings plans, as well as the Council's response to the 2013 Ofsted inspection.

The external auditor advised the Committee that the proposed audit fee for the year was £188,460, which complied with the scale fee published by the Audit Commission.

Members discussed the contents of the report, which included consideration of the external auditors approach to assessing value for money (VFM) and the new approach to auditor's work in this area, as introduced previously by the Audit Commission. It was also noted that work was ongoing as to how the joint venture with Norse would be disclosed within the financial statements and the external auditor undertook to update the Committee on this issue at the next meeting. It was reported that a partnership audit of Medway Norse was included in the 2013/2014 audit plan, with fieldwork scheduled to commence in April 2014, and the Committee requested a Briefing Note clarifying the Audit Committee's role and responsibilities within this joint venture.

### **Decision:**

- (a) The Audit Committee accepted the proposed annual audit plan for 2013/2014.
- (b) The Audit Committee requested a Briefing Note clarifying the Audit Committee's role and responsibilities within the Council's joint venture with Norse.

## **927 Internal Audit Programme**

### **Discussion:**

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

The Committee was advised that following recent changes to Disclosure and Barring (DBS) legislation, the Council's Disclosure and Barring Policy had been revised and was due to be published shortly and that service specific guidance for Foster Care staff had been updated and checked with the British Association for Adoption and Fostering. The Audit Services Manager referred to

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the overall audit opinion that the DBS and DPA arrangements for foster care, and the wider arrangements within Children and Adults, needed strengthening and highlighted the update provided in the report on management progress with the six significant recommendations relating to data protection compliance.

Members were updated as to progress with the Council's three-year programme of reviewing financial management in Medway's schools. This review was being undertaken via a series of probity reviews and, subject to unforeseen circumstances, would be completed by July 2015/2016. It was noted that despite some improvements, particularly around financial awareness, the majority of schools were yet to be visited and, based on the evidence to date, the overall opinion on financial control in Medway schools was that it still needed strengthening. Members were advised that Internal Audit was currently liaising with Governor Services and Education Finance, in relation to governance and financial management training for governors.

Members considered the key issues identified during the 2013/2014 probity review programme and stressed the importance of sharing this information with Governing Bodies and Headteachers, to help them consider the effectiveness of financial management within their schools. Members considered the need for an innovative portfolio of measures to raise awareness amongst all governors as to the issue and their responsibilities. Measures to promote best practice amongst all Medway schools should include: a summary document highlighting the emerging issues and lessons learnt to facilitate their own review of financial controls and appropriate training accessible for both governors and Headteachers that would include the use of alternative formats, such as the internet.

During the discussion, the Committee noted the success of Medway Action for Families, the local multi-agency delivery model of the national Troubled Families Programme, and officers advised that the audit opinion (that the current management arrangements needed strengthening) should be considered in the context of a clear multi-agency commitment to delivering a successful outcome with long term benefits. Members considered the complexities associated with the scheme's financial framework, a results-based funding scheme, and it was noted that reviews had been undertaken on two 'payments by results' claims. These had highlighted data issues to be addressed as part of the audit action plan. It was further noted that issues surrounding the criteria would need to be resolved nationally.

Members were also referred to the two follow-up audits included in the report (Local Bank Accounts in Schools and IWorld System Access Controls) and it was highlighted that in both audits the audit opinion had been raised from insufficient to satisfactory.

### **Decision:**

- (a) The Audit Committee noted progress on the 2013/2014 audit programme, including the three additional audits and the proposed deferment of one audit, and the outcome of Internal Audit's work.

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- (b) The Audit Committee requested an update on the implementation of the four material recommendations arising from the Highways Maintenance audit.
- (c) The Audit Committee requested that officers take forward the measures identified to promote best practice amongst all Medway schools. This should include: a summary document highlighting the emerging issues and lessons learnt to facilitate their own review of financial controls and appropriate training accessible for both governors and Headteachers that would include the use of alternative formats, such as the internet.

### 928 Corporate Fraud

#### Discussion:

The Fraud 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 National Fraud Initiative (NFI) it was reported that Medway Council had, to date, identified approximately £111,619 in overpayments, as a result of the 2012/2013 NFI exercise. Data for the 2013/2014 exercise had now been received, which matched Council Tax Single Person Discount records to 2013 Electoral Registration records, and would be processed over forthcoming months in line with NFI guidelines and assessed local fraud risk. Further details on both exercises would be reported to Members in due course.

Members welcomed the work that was being undertaken to launch the Fraud Hotline and it was noted that calls received would be monitored to gauge effectiveness and identify areas for improvement.

The Committee considered the update provided on the rollout of the Single Fraud Investigation Services, which had been confirmed in the Government's Autumn Statement. Concern was expressed that it was unknown at this stage whether Medway Council would be included within implementation phase 1 or 2; given that phase 1 would commence in the summer of 2014. The Fraud Manager advised the Committee as to the work of the Local Authority Investigation Officers Group, which had recently represented local authority investigators at a House of Commons Select Committee, and it was noted that officers would attend a regional road show on 26 March 2014.

In response to questions as to the overpayments reported in the annexes to the report, the Fraud Manager explained the impact of these on the Council's benefit subsidy and accounts. Members also discussed the housing prosecution, reported in Annex A, and requested a Briefing Note setting out the background as to how this had been identified by the Housing Association and the issues surrounding the removal of an applicant from the Housing Register.

**Decision:**

- (a) The Audit Committee noted the progress in investigating fraud in accordance with the approved Anti Fraud & Corruption policy, as set out in the report.
- (b) The Audit Committee requested a Briefing Note setting out the background as to the housing prosecution reported in Annex A to the report, which is to include the issues surrounding the removal of an applicant from the Housing Register.

**929 2014/15 Internal Audit Annual Plan**

**Discussion:**

The Audit Services Manager introduced a report on the proposed 2014/2015 Internal Audit Plan.

Details were provided as to how the proposed work programme had been determined, which was set out in the 2014/2015 Internal Audit Plan Approach attached as Annex A to the report. The proposed plan for 2014/2015, that ran from July 2014 to June 2015, was set out at Annex B and Members were assured that there were sufficient resources available to deliver the plan and provide the Internal Audit opinion at the end of the year.

It was noted that the plan included three optional risk based audits that would be undertaken if resources permitted.

Members considered the importance of an audit to provide assurance of the associated arrangements with the Council's third sector partners. The Committee was advised that over time the financial relationship with the third sector had changed; with less grants and an increased use of the council's procurement process, with its associated controls. The Audit Services Manager advised as to the difficulties associated with tracking all the relevant relationships with the third sector and undertook to consider this issue further.

**Decision:**

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

**930 Fraud Resilience Strategy**

**Discussion:**

The Audit Services Manager introduced the 2014/2016 Fraud Resilience Strategy (FRS). The document set out the planned audits for 2014/2015 and matched this with related fraud resilience work scheduled for 2014/2016. It was noted that both strands of Audit Services delivered the strategy: the Corporate Anti-Fraud Team and Internal Audit.

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Members were advised that the new two year FRS built upon the improvements implemented in the past two years and extended the number of service areas it addressed. It was noted that the proposed FRS had been presented to the Council's Extended Management Team and that a Diversity Impact Assessment screening form had been completed, which had concluded that it was not necessary to undertake a full impact assessment.

The Committee discussed the figures included in the report, which reported that the level of loss due to fraud within local government had been estimated by the National Fraud Authority to be £2.4billion. Officers advised that whilst these figures had informed the development of the strategy, they could not be easily adjusted to provide an accurate picture of the situation in Medway.

Members considered the Key Risk Areas included within the Strategy and requested clarification on Staff Vetting, which had been considered previously by the Committee as part of an earlier audit, and a Briefing Note on Corporate Credit Cards, which provided details the number of cards and who holds them.

### **Decision:**

- (a) The Audit Committee endorsed the Fraud Resilience Strategy, as attached to the report.
- (b) The Audit Committee requested:
  - i. clarification on Staff Vetting, which had been considered by the Committee previously as part of an earlier audit.
  - ii. a Briefing Note on Corporate Credit Cards, which provides details the number of cards and who holds them.

## **931 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 12 (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.

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

### **Discussion:**

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



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Members considered the information as set out and officers responded to Members' questions as they related to the individual cases. In relation to the whistleblowing allegations in Annex C the Committee identified a number of areas that it requested internal audit to consider as part of its ongoing audit in this areas.

### **Decision:**

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

### **Chairman**

### **Date:**

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