

Medway Council
Meeting of Audit Committee
Thursday, 17 July 2014
7.00pm to 9.30pm

Record of the meeting

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

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

156 Record of meetings

The records of the meeting held on 20 March 2014 and the Joint Meeting of All Committees held on 14 May 2014 (as tabled at the meeting) were agreed and signed by the Chairman as a correct record.

157 Apologies for absence

Apologies for absence were received from Councillors Jarrett, Mackness and Maple.

158 Urgent matters by reason of special circumstances

There were none.

159 Declarations of disclosable pecuniary interests and other interests

Disclosable pecuniary interests

There were none.

Other interests

There were none.

160 Statement of Accounts 2013/2014

Discussion:

The Finance Support Manager presented the Council's Statement of Accounts for 2013/2014, which were required under the Accounts and Audit Regulations 2011.

The Statement of Accounts had been circulated to Members within Supplementary Agenda No. 1. It was noted that revisions to a number of the 'Notes to the Financial Statements' and 'Supplementary Financial Statements' had been circulated in advance of the meeting and a further amendment to the notes relating to 'Amounts Reported for Resource Allocation Decisions' was tabled at the meeting, along with a breakdown of the major variances on the Consolidated Income and Expenditure Account, Balance sheet and Collection Fund. The Finance Support Manager reported two typographical errors within the accounts, these being the duplication of a paragraph within the 'Explanatory Foreword' and the wrong job title shown in Note 24 'Officers' Remuneration' for the Deputy Director, Customer Contact, Leisure, Democracy and Governance. The Committee was also advised that further work was required to correct the 'Movement in Reserves Statement' on page 40 of the Statement of Accounts.

In his introduction to the Statement of Accounts the Finance Support Manager highlighted to the Committee that:

- as Medway Norse was at the early stages of development and the value of transactions was not considered material, officers had not completed group accounts, although this would be reviewed in the future.
- the accounts detailed a revenue surplus for 2013/2014 of £0.267m, which resulted in a contribution towards the General Reserve.
- the General reserve, as shown in the 'Movement in Reserves Statement for the Years Ending 31 March 2013 and 31 March 2014', had reduced by £363,000. An explanation of all the movements on the General Reserve was provided.
- Note 21 'Amounts Reported for Resources Allocation Decisions' bridged the gap between the Management Accounts to the Comprehensive Income and Expenditure Account.

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

- the reported £194.517 million Council obligation in respect of its defined pension benefit plans, which had to be declared in accordance with International Accounting Standard 19,
- the assets that comprised the Local Government Pension Scheme and the role of the fund managers in maximising returns whilst minimising risk;
- the presentation of the joint venture with Norse within the Council's Statement of Accounts, as opposed to a presentation of their own accounts,

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and the transactions and external contracts won during the first year of operation;

- the Children and Adults Services Directorate overspend of £1.2 million, which consisted of a £2.5 million overspend for Children's Care and was largely mitigated by a £2 million underspend on Adult Social Care;
- the reduction from £55.7 million to £39.3 million in invested funds, which reflected the Council's policy of funding capital from cashflow and repaying debt;
- the movement in school's balances, which was largely attributable to the transfer of balances to converting academies, and the grouping of school balances within the council's accounts;
- the sustainability of the council's various reserves, which included Earmarked Reserves of £29.9 million; and
- the Income and Expenditure account for the Medway Harbour Authority.

During the discussion on this item, the Committee highlighted a number of typographical errors in the Statement of Accounts. This included details of the Council's representation on the Chatham Historic Dockyard Trust and Medway Ethnic Minority Forum and that the 'Statement of Responsibilities' (page 7 of the accounts) should refer to the position as at 2013. The Finance Support Manager also undertook to review the table at page 79 of the accounts, which detailed the Council's 'other employees' receiving more than £50,000 remuneration for the year.

The Committee requested officers provide a briefing note updating Members on the two schools who had not submitted their three year plans and explaining the four schools forecasting deficits by March 2015.

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.

Decisions:

- a) The Audit Committee approved the draft Statement of Accounts for 2013/2014 for submission to the Auditor, subject to the amendments identified at the meeting.
- b) The Audit Committee requested a Briefing Note setting out details of the two schools who had not submitted their three year plans (as set out in the report) and providing further details of the four schools forecasting deficits by March 2015.

161 Treasury Management Outturn Annual Report

Discussion:

The Finance Support Manager introduced the annual Treasury Outturn Report that provided an overview of treasury management activity during 2013/2014.

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Members were advised that there had been a continued historically low base rate and dropping of market rates during 2013/2014, which was reflected within performance. Despite this, it was noted that overall the Interest and Financing Budget had made a surplus over its targeted budget of £43,000.

Officers highlighted that £10 million of debt had been repaid in 2013/2014 and not replaced. This was a continuation of the policy of not replacing loans as the cost of borrowing greatly exceeded the yield from investments. As a consequence of this policy and the funding of capital from cashflow a drop in total investments from 2013 to 2014 was also noted.

The Committee was also referred to the benchmarking information contained within the report. This showed that the council's treasury costs per £million invested was more expensive than the average benchmarked cost by circa £31,000. It was noted, however, that in 2013/2014 the Council had ceased using Investec, whose fees had been £30,100 for the year; without this cost the Council would be in line with the average.

The Finance Support Manager reported that the In-House team had achieved a return of 1.02% on investments whereas Investec only achieved 0.22%, this brought Medway's total earnings down to 0.78%. This was reflected in Graph 5 of the report, showing that on average the Council had performed below average. The Committee was advised however, that without Investec the Council would have achieved 1.02%, which was above the average of 0.85%

It was also reported that the Council's average debt costs were marginally below the average benchmarking costs. Furthermore, as at 31 March 2014, the Council was performing marginally above the expected level of yield.

The Finance Support Manager referred Members to the Capita benchmarking that was included in the report, which accounted for risk, and that, as at 31 March 2014, the Council was performing marginally above the expected level of yield.

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

- operation of Lenders Options, Borrowers Options (LOBO) debt – it was explained that this instrument permitted the lender to nominate a revised rate at periodic reset dates, and let the borrower decide whether to pay the rate or redeem the debt;
- reported breach of treasury limits. 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. This technical breach had had no adverse impact Council's portfolio and was reported to the November 2013 meeting of the Committee;
- Capita benchmarking data and the performance of other authorities as shown on their risk-adjusted model;
- Council lending to other AAA rated local authorities for periods of up to 5 years. This was seen as a means to increase the yield whilst not increasing the risk inherent within the council's portfolio.

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Decision:

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

162 Corporate Fraud

Discussion:

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.

The Audit Services Manager took this opportunity to update the Committee on the move of benefit investigations to the Single Fraud Investigation Service (SFIS) in the Department for Work and Pensions in February 2016. Members were referred to Annex C to the report, which set out details of the recommendation of the House of Commons Work and Pensions Select Committee to pause implementation so to align SFIS roll out with Universal Credit, and Annex D that set out a summary of consultation issues raised. Confirmation from the Minister for Welfare Reform that implementation of SFIS would continue as planned, despite these concerns, was set out in Annex E to the report. The Audit Services Manager confirmed that further updates would be provided to the Audit Committee in due course.

In relation to external fraud, the Committee were referred to Annex A to the report, which gave details of nine prosecutions and three cautions relating to benefits and council tax reduction. The Audit Services Manager gave details of three internal investigations as set out in Annex B to the report.

Decision:

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

163 Internal Audit Annual Report

Discussion:

This report informed the Committee of the overall opinion for 2013/2014 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 the annual report was a key independent and objective assurance for the council, reviewing internal control, management of risk, probity and compliance and pursuit of value for money. It was reported that the overall Internal Audit opinion was that arrangements were sufficient, based on the central governance arrangements of the Council, along

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with the robust processes in place for managing key financial systems and the management response to issues identified in operational areas.

The Committee was referred to key audit assurances and it was noted that all governance audits and key financial systems had positive outcomes and, year on year, had provided overall assurance on the key governance and financial processes in place across the council. The Audit Services Manager highlighted the “strong” audit opinion given to the procurement audit, which was seen as demonstrating the positive impact of category management on the procurement arrangements within the Council and greatly strengthened the level of assurance provided.

The Audit Services Manager explained and gave further examples of the risk based audits that focussed on key risks to the council, the programme of probity reviews in schools and the importance of external reviews, such as the Ofsted inspections of children services. Details of non-audit work (such as grant certification), confirmation on internal audit resources and the quality reviews undertaken was given.

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

- Medway Action for Families Audit and how this had been undertaken given the complexities associated with the scheme’s financial framework and results-based funding scheme;
- the role of the school probity audits and the way they are reported (without an audit opinion);
- the procurement audit and the appropriateness and resource implications of focussing on arrangements for procuring goods and services over £100,000 only;
- the reporting process regarding Norse control arrangements.

Decision:

- (a) The Audit Committee noted Internal Audit’s opinion on internal control for 2013/2014, as contained in Annex A to the report, and agreed to consider this report when considering the Annual Governance Statement.
- (b) The Audit Committee requested that Norse annual accounts be presented to this Committee, together with a Statement of Internal Control.

164 Internal Audit Programme

Discussion:

The Audit Services Manager introduced this report providing an overview of the 2013/2014 and 2014/2015 internal audit work programme, together with details of probity and follow up work undertaken since the last Audit Committee Meeting.

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It was noted that there were two 2013/2014 audits concerning Better for Less and Equality and Diversity still to be finalised and Annex B to the report listed the outcomes from the 2014/2015 plan and noted the Grant and Payment by Results certificates completed.

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

- risk considered as part of the Local Income Management audit, that income may not be retained securely or banked promptly. Members considered the inconsistent approach adopted and were assured that management undertook risk assessments regarding the safety of those staff receiving cash;
- findings of the carbon reduction audit, which had been reported to the Committee in September 2013. It was noted that this had been undertaken on this occasion by Internal Audit but would be a matter for management in future years;
- findings of the corporate credit card audit, where the overall opinion on the effectiveness of controls was considered to be sufficient;
- Payment Card Industry Data Security Standard compliance audit. Members were advised that the processes were robust and the Chief Finance Officer updated the Committee on the implementation of new technology designed to safeguard data security.

During the discussion on this item the Monitoring Officer undertook to include the Medway Norse – SEN Home to School Transport audit within the next Norse Update report submitted to the Business Support Overview and Scrutiny Committee.

Decision:

The Audit Committee noted progress on the 2013/2014 and 2014/2015 audit programmes, and the outcome of Internal Audit's work.

165 Effectiveness of the Internal Audit System

Discussion:

The Chief Finance Officer introduced a report on the effectiveness of the internal audit system. It was noted that 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 an updated copy of the Audit Charter and a set of Key Performance Indicators were attached to the report.

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Decision:

- a) The Audit Committee endorsed the approach to the review of effectiveness of the internal audit system for 2013/2014 and the outcome of the review, in support of the Committee's consideration of the Annual Governance Statement.
- b) The Audit Committee noted and approved the Internal Audit Charter as set out in Annex D to the report.

166 Information Governance Policies

Discussion:

The Assistant Director, Legal and Corporate Services/Monitoring Officer introduced a report that sought formal approval of the policies and guidance first presented to the Audit Committee on the 11 July 2013.

It was noted that the Council as a "public authority" and as a holder of personal and general information was subject to a number of well-known pieces of legislation and a suite of Information Governance policies and guidance had been developed to respond to this.

The suite of Information Governance policies and guidance were set out within Supplementary Agenda No.1:

- Information governance policy
- Data breach policy and guidance
- Data protection policy
- Data protection guidance
- Environmental information policy
- Environmental information guidance
- Freedom of information policy
- Freedom of information guidance
- Protective marking policy
- Records management policy.

Members were advised that consultation on the proposed changes had taken place, involving the Security and Information Governance Group chaired by the Assistant Director of Legal & Corporate Services, senior managers and the Caldecott Guardian.

Decisions:

- a) The Audit Committee approved the suite of Information Governance policies and guidance as set out within Supplementary Agenda No.1.
- b) The Audit Committee agreed to delegate authority to the Assistant Director, Legal & Corporate Services, Monitoring Officer to amend the suite of

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Information Governance policies and guidance in compliance with current legislation and good practice.

- c) The Audit Committee requested that the Assistant Director, Legal & Corporate Services, Monitoring Officer publish, if appropriate, the suite of Information Governance policies and guidance on the Council's website.

167 Annual Governance Statement

Discussion:

The Assistant Director Legal and Corporate Services introduced a report that presented the 2013/2014 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; an "inadequate" Ofsted report on child protection services and a subsequent "inadequate" for safeguarding and looked after children that has required a detailed and comprehensive response from the Council; and, the 2015 general and local elections.

Decision:

The Audit Committee approved the draft Annual Governance Statement noting that a further key are for the council would be the retirement of the current Chief Finance Officer in 2015.

168 Annual Review of Terms of Reference

Discussion:

The Audit Services Manger 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 was to clarify the role of Audit Committee in monitoring the effectiveness of internal audit, which was in accordance with the Accounts and Audit Regulations.

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

Decisions:

- a) The Audit Committee noted the Committee's current terms of reference and confirmed that they, including the proposed revision, meet current and expected future needs.

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- 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.

169 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 14 (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.

170 Investigations Relating to Internal Financial Irregularities

Discussion:

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

Members considered the information as set out and officers responded to Members' questions as they related to the individual cases.

The Audit Services Manager took this opportunity to advise Members that a report to the Committee on the control arrangements at the Corn Exchange would be submitted in September. Members were also assured that there were no actions outstanding from audit of the highways maintenance contract, the outcome of which had been previously reported to the Committee, and that the matter was deemed closed.

Decision:

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

Chairman

Date:

Anthony Law, Democratic Services Officer

Telephone: 01634 332008

Email: democratic.services@medway.gov.uk