

Medway Council
Meeting of Audit Committee
Tuesday, 14 July 2015
7.00pm to 9.20pm

Record of the meeting

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

Present: Councillors: Kemp (Chairman), Gulvin, Maple, Osborne and Tejan

In Attendance: Neil Davies, Chief Executive
Katey Arrowsmith, Head of Internal Audit and Counter Fraud
David Eagles, Engagement Leader, BDO
Perry Holmes, Assistant Director, Legal and Corporate Services/Monitoring Officer
Carl Rogers, Head of Category Management, Place
Michael Turner, Democratic Services Officer
Phil Watts, Chief Finance Officer
Janice Wellard, Fraud Manager

106 Record of meeting

The record of the meeting held on Committee held on 19 March and the Joint Meeting of Committees held on 27 May 2015 were agreed and signed by the Chairman as a correct record.

107 Apologies for absence

There were no apologies for absence.

108 Urgent matters by reason of special circumstances

There were none.

109 Declarations of disclosable pecuniary interests and other interests

Disclosable pecuniary interests

There were none.

Other interests

Councillor Maple disclose an interest in agenda item 7 (Internal Audit Activity) as a Governor of St John's CEVC Infant School.

110 Update to the Council's Contract Procedure Rules (CPRS)

Discussion:

The Head of Category Management, Place introduced a report which advised that in February 2015 the legislation which governed the procurement rules for public sector procurement had been updated and enacted into UK legislation in the form of the Public Contracts Regulations 2015. The Council, as a public sector organisation was bound by this legislation and therefore the internal Contract Procedure Rules of the Council, as set out in the Constitution, needed to be updated.

Members asked questions as follows:

- Clarification was sought about whether the procurement rules also applied to Medway Norse given that it was partly owned by the Council. Officers advised this was the case but often it was Norse Commercial Services (the parent company) who undertook purchasing.
- Were contracts awarded to Medway Norse by the Council on the same basis as other companies? Officers replied that whilst it was possible for the Council to award contracts to Medway Norse, under the Teckal exemption which had now been codified, without competition the Council did also invite tenders to ensure it obtained value for money. Medway Norse were not always successful in winning Council contracts. Checks and balances were in place to minimise any risk of the appearance of bias.
- Would the revised CPRs allow more flexibility when purchasing low level consumables? Officers advised that there was a framework contract in place for these which provided better value for money than purchasing through petty cash etc.
- Where it was appropriate and provided value for money, did the new Rules allow the Council to use e-auctions when purchasing goods? Members were advised that officers would look into this and, if appropriate, recommend a revision to the CPRs subject to the usual safeguards and controls being built in.
- Would the new CPRs help small and medium sized enterprises (SMEs)? Officers confirmed that the speeding up of contracting timescales and the requirement to split contracts into lots would be beneficial to SMEs.

Decision:

The Audit Committee agreed to:

- (1) recommend approval of the Contract Procedure Rules, as set out in Appendix 1 of the report, to Full Council and
- (2) ask officers to investigate whether the new Rules should be amended to allow the Council to use e-auctions when purchasing goods where this

Audit Committee, 14 July 2015

was appropriate and provided value for money, subject to the usual safeguards and controls being built in.

111 Review of Audit Committee Terms of Reference

Discussion:

The Head of Internal Audit and Counter Fraud introduced a report regarding a review of the Terms of Reference of the Audit Committee and whether any changes were necessary.

The External Auditor advised that the reference to the annual audit and inspection letter in the terms of reference should be updated to simply refer to the annual audit letter.

Decision:

The Audit Committee agreed to recommend that the Terms of Reference of the Committee be amended so that the reference to the annual audit and inspection letter be amended to simply refer to the annual audit letter.

112 Internal Audit Activity

Discussion:

The Head of Internal Audit and Counter Fraud presented a report on progress in delivering the approved 2014-15 work programme, and also outcomes completed since the last meeting of the Audit Committee.

Members referred to the school probity reviews and expressed concern at some of the issues highlighted by the audits. Officers were asked how a probity issue was defined, as if the bar was set too high, then some issues may not be properly classified. The Head of Internal Audit and Counter Fraud replied that probity related to impropriety as opposed to concerns about value for money. Where probity issues were identified then these were reported in detail to the school and to senior managers in the Council. In future it was expected that audit planning would be informed by any thematic issues arising from school probity reviews. A discussion took place about whether training provided for governors was adequate. The Chief Finance Officer commented that finance staff provided two courses for governors and were on hand to support schools where necessary. Funds had been set aside for governor training and work was underway to develop a sustainable training model.

With reference to the audit of capital projects, some Members referred to the large capital programme and queried whether risk management was strong enough and whether, from a value for money perspective, enough scrutiny of large projects was taking place. A Member referred to large capital projects where the final costs had exceeded the original estimate and asked whether

Audit Committee, 14 July 2015

the monitoring arrangements in place were adequate. The Chief Executive commented that there were only one scheme he could recall where the original estimate had changed and that had happened for very clear reasons. In terms of the capital project referred to, one lesson the council had learned was to be clear when an original estimate was prepared whether further work was pending which could lead to increased costs and also that this was not yet the approved budget. Officers advised that six recommendations had been made by Internal Audit to address issues identified in the audit and if there were any concerns when these were followed up these would be reported to Members. A Member suggested that it would be helpful for Members to see the recommendations and for a sense check to be carried out against what other similar councils were doing.

Officers assured Members that in the last four years a succession of capital projects had been delivered within the agreed budgets and timescales.

Decision:

The Audit Committee agreed to:

- (1) note progress on the 2014-15 audit programme, and the outcome of Internal Audit's work and
- (2) asked for a briefing note on the six recommendations, including progress on action taken, made to address issues identified in the audit of capital projects.

113 Corporate Fraud

Discussion:

The Fraud Manager presented a report which informed Members of matters relating to corporate fraud, including outcomes of investigations and fraud referrals received by Audit Services.

With regard to the establishment of the Single Fraud Investigation Service and the fact that the Council would no longer have the authority to investigate or prosecute Housing Benefit Fraud, Members were assured that the Council would still retain sufficient capacity in Internal Audit to rigorously pursue other types of fraud against the Council.

A Member asked how the Council compared to similar authorities in terms of cases of corporate fraud. Members were advised that an attempt had been made by CIPFA to benchmark this information but this had not proved to be effective. Officers would look at other benchmarking opportunities.

The importance of measures to prevent people from committing fraud in the first place was emphasised.

Audit Committee, 14 July 2015

Decision:

The Audit Committee agreed to:

- (1) note progress in investigating fraud in accordance with the approved Anti Fraud and Corruption policy and
- (2) note that officers will investigate opportunities to benchmark information with similar councils about levels of corporate fraud.

114 Treasury Management Outturn Annual Report

Discussion:

The Chief Finance Officer presented a report which gave an overview of treasury management activity during 2014/15. He advised that the Cabinet had considered this report on 7 July 2015 and had no comments to make to the Committee.

Reference was made to instability in parts of the Euro Zone and whether this would impact on returns. The Chief Finance Officer felt that the Council was not particularly exposed to any risks as a result of this. He added that he was keen to improve performance further but that would require a review of the Treasury Management Strategy. In response to questions about the latter Members were advised that work on this was at a very initial stage and any changes would require Member approval.

A Member asked for further detail about levels of borrowing by the Council and, in particular, how levels compared with similar councils. The Chief Finance Officer undertook to provide a briefing note on this.

In response to a question about the costs of the treasury management function the Committee was advised that the costs in 2013/14 were above average but since then the Council had stopped using an external fund manager to manage core investments, saving some £30,100, and had deleted a senior manager post. This meant that Medway was likely to bear favourable comparison with costs incurred by other authorities.

Decision:

The Audit Committee agreed:

- (1) in accordance with the CIPFA Code of Practice, to approve the Treasury Management Outturn Annual Report and
- (2) to ask officers to provide Members with comparative information on levels of borrowing by the Council.

115 Annual Internal Audit Report 2014-15

Discussion:

The Head of Internal Audit and Counter Fraud presented a report which provided the annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework, in support of the Annual Governance Statement.

This opinion was primarily based on the interim report prepared by the previous Head of Internal Audit and Fraud for the period 1 April 2014 to 20 March 2015, supplemented by the work of the team to the end of June.

With reference to the restructure of the Internal Audit team Members asked if there was sufficient capacity to deliver the audit plan and also to allow time for staff to pursue professional development opportunities so that, amongst other things, staff had a chance to identify new ways of working. The Head of Internal Audit and Counter Fraud replied that she was confident there was sufficient capacity in the team to carry out enough internal audit work to allow her to provide an opinion on the overall adequacy and effectiveness of the council's internal control environment. Staffing levels were similar to comparable councils and smarter ways of working would be introduced and the highest rated risk areas would be looked at first. Also, the shared service provided greater resilience and allowed staff developmental opportunities. There was a positive attitude in the Council towards staff pursuing professional development opportunities.

A Member asked if there was any scope for the finance team to offer its services on a commercial basis to academies with a view to ensuring public confidence in that sector. The Chief Finance Officer replied that whilst he was not ruling this out it would require an investment in staffing to provide the capacity needed to generate income.

Decision:

The Audit Committee agreed to note the Annual Internal Audit Opinion for 2014-15 and consider this when considering the council's Annual Governance Statement (see also minute no. 116).

116 Annual Governance Statement

Discussion:

The Assistant Director Legal and Corporate Services presented a report which explained the requirements for reporting and approving an Annual Governance Statement (AGS) covering the financial year 2014/15. Members were asked to comment on and approve the Statement.

Decision:

The Audit Committee agreed to approve the Annual Governance Statement.

117 Statement of Accounts 2014/15

Discussion:

The Chief Finance Officer presented a report which requested that the Audit Committee approve the Council's draft Statement of Accounts for 2014/15. He advised that the Cabinet had considered this report on 7 July 2015 and had no comments to make to the Committee.

Members made the following points:

- The £500,000 underspend regarding the funding of Medpay was queried. Officers advised that it was essentially a presentational issue as the costs of funding Medpay had been reflected within services and hence the central budget referred to had not been used
- The £98,000 underspend ascribed to the register of electors was questioned. Members advised the wording was incorrect and this related to the annual contributions made to the fund set aside for elections and not to the electoral register
- A member argued that the £4.4m overspend in children's social care should be looked at in more detail by the Audit Committee given the significant variation from the agreed budget. Whilst he accepted the expenditure related to essential services for vulnerable children and young people he did not feel the overspend was adequately scrutinised elsewhere and there was a risk it could happen again. He also queried whether the original budget was realistic in the first place. The Chief Finance Officer commented that the Council had invested in this area following weaknesses highlighted by Ofsted. Due to difficulties in recruitment, agency staff were often used and inevitably this was more expensive. It was recognised this was not sustainable and there were action plans in place to address this with the Director committed to obtaining value for money. In addition there were additional placement costs due to higher number of looked after children. The Chief Executive added that the issues facing the Council were national in nature and he was satisfied that the Council was doing what it could to operate effectively. Cabinet had a clear role in monitoring the budget and scrutiny had a role in questioning the basis on which the budget was set. Given the significant pressures confronting the service it was possible that the budget could overspend again but he did not feel this was a value for money issue for this Committee
- A Member referred to the £1.1m underspend on Adult Social Care and queried this given the demographics in Medway. The Chief Finance officer replied that the Council did still face demographic pressures and that some of the reasons for the underspend were that care packages were not as expensive and the move away from residential care had also reduced costs.

Decision:

Audit Committee, 14 July 2015

The Audit Committee agreed to approve the draft Statement of Accounts for 2014/15.

Chairman

Date:

Michael Turner, Democratic Services Officer

Telephone: 01634 332817

Email: democratic.services@medway.gov.uk