

Medway Council
Meeting of Audit Committee
Thursday, 24 September 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: Perry Holmes, Assistant Director, Legal and Corporate Services/Monitoring Officer
Philip Honeybone, Principal Auditor
Michael Turner, Democratic Services Officer
Phil Watts, Chief Finance Officer
Janice Wellard, Fraud Manager
Liana Nicholson, BDO LLP
David Eagles, Engagement Leader, BDO

354 Record of meeting

The record of the meeting held on 14 July 2015 was agreed and signed by the Chairman as a correct record.

355 Apologies for absence

There were no apologies.

356 Urgent matters by reason of special circumstances

The Chairman reported that he had agreed to accept the Annual Governance Report 2014/2015 as urgent because the next meeting of this Committee would not take place until 12 January 2016 and the issues raised in the Council's External Auditor's Annual Governance Report must be considered by this Committee prior to publication of the Statement of Accounts by 30 September 2015. The report could not be despatched with the agenda as officers needed sufficient time to prepare the report following discussions with the External Auditor.

357 Declarations of disclosable pecuniary interests and other interests

Disclosable pecuniary interests

There were none.

Other interests

Councillor Maple disclosed an interest in paragraph 27(Related Parties) of the Annual Governance Report (agenda Item No 6) as a Director of Medway Credit Union.

Councillor Gulvin disclosed an interest in any reference to the Kent Fire and Rescue Service in the Annual Governance Report (agenda Item No 6) as Vice-Chairman of the Kent and Medway Fire and Rescue Authority. Councillor Gulvin also disclosed an interest in Agenda Item 10 (Internal Audit Update) as a member of the Governing Body of Oaklands School

358 Review of Risk Management

Discussion:

Members considered a report on the progress of the Council's risk management activities. The Extended Management Team had reviewed the Risk Strategy and recommended no changes be made at this time. A Member queried whether there were other risk strategies (possibly ISO accredited) that the Council could adopt that might be more effective, given the current one had been in place since the Council had been established. It was queried whether the fact that the Strategy was not ISO accredited was in itself a risk. The Extended Management Team had considered whether the Strategy should be changed but concluded that, on balance, it was not the right time, given the Strategy was well embedded and a change was not at this point seen as a priority given other pressures. However, it was an aspiration for the future and Members accepted that their familiarity with it allowed for effective scrutiny. The retention of the current Strategy was supported but officers were asked to establish how many other similar councils had adopted an ISO accredited risk strategy.

Decision:

The Committee agreed to note progress on the Council's risk management activities.

359 Annual Governance Report 2014/2015

Discussion:

Members considered a report detailing the issues raised in the Council's External Auditor's Annual Governance Report (AGR), which incorporated the findings following the 2014/15 audit of the Statement of Accounts.

The Accounts and Audit Regulations 2011 (as amended) required that the Audit Committee consider these issues prior to publication by 30 September 2015.

Tabled at the meeting were proposed amendments to the Accounts from the Council's External Auditors (Supplementary Agenda No 2).

Representatives from BDO emphasised that in order to meet the earlier deadlines which would be imposed on the preparation of the financial statements in two years' time (i.e. Statement of Accounts to be published by 31 July rather than 30 September) the Council should be working towards good quality financial statements and supporting working papers at an earlier stage. The Council therefore needed to give serious consideration as to what resources would be required to meet the new upcoming deadlines as it would not be met with existing resources. Members acknowledged the Council's difficult financial situation but still felt that adequate resources should be made available as it was in the best interests of Medway residents for an unqualified opinion to be issued on the accounts. It was recognised that changes in key personnel in the Council and BDO had impacted on the ability to prepare and audit the accounts this year but this would not be an issue for the following year.

A Member referred to the large number of non trivial errors in the primary statement and supporting disclosure notes and asked if BDO felt this was something the Council should be concerned about. BDO representatives replied that these were all issues which the Council needed to address but felt the Council should be primarily concerned about them in the context of the accelerated deadline for the preparation of accounts.

A Member also queried whether the Committee should actively monitor progress in implementing the recommendations made by BDO. There was general support for this view.

A Member expressed surprise that the Council had implemented additional controls around the annual declaration process regarding related party transactions including carrying out Companies House searches on Members and senior officers. He felt that this appeared to be disproportionate and that, provided the guidance issued to Members on this was clear, then these further checks should not be necessary.

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Decision:

The Committee agreed:

- a) to note the issues raised and judgements made by the Auditor as presented in Appendix 1 to the report, and agreed the proposed response as set out at Appendix IV to the External Auditor's Annual Governance Report (AGR).
- b) the revised Statement of Accounts as set out in Appendix 2 to the report (including the amendments set out in Supplementary Agenda 2)
- c) the Management Representations Letter, attached at Appendix VI of the AGR.
- d) to ask for regular updates on progress with implementing the recommendations in the AGR
- e) to ask Cabinet to consider the issue raised in the AGR about the need for the Council to consider what resources are needed to meet the new upcoming deadlines regarding the preparation of the financial statements

360 Corporate Fraud

Discussion:

Members considered a report relating to corporate fraud, including outcomes of investigations and fraud referrals received by Audit Services. The report also advised Members of progress with the National Fraud Initiative.

In response to a question about the reasons for, and the appropriateness of, the increase in the use of curfews in cases of fraud, the Fraud Manager replied that there was insufficient information from the Magistrates Court to say for sure why this sanction had increased but it was likely Magistrates would look at an individual's circumstances before deciding on the most appropriate sentence.

The Fraud Manager confirmed that the number of fraud cases was increasing. The quality of referrals had improved and some were now made that would not have happened in the past, in particular data matching against HMRC payroll and pension records. Many cases of fraud were due to a failure to report a change in circumstances.

In terms of some of the benefit repayment figures, a Member asked how these were set as some were very low compared to the level of overpayment. Members were advised that the Council tried to maximise repayments but different rates for the recovery of fraud and non fraud related overpayments were set by the Government.

Decision:

The Committee agreed to note progress in investigating fraud in accordance with the approved Anti-Fraud and Corruption Policy and to also note progress in the National Fraud Initiative.

361 Internal Audit and Counter Fraud Partnership

Discussion:

Members considered a report on the development of a Partnership to deliver Internal Audit and Counter Fraud Services to Medway Council and Gravesham Borough Council. The report also provided an update on the transfer of Housing Benefit Fraud work to the Department for Work and Pensions Single Fraud Investigation Service.

Members welcomed the initiative. A Member queried whether a Joint Audit Committee with Gravesham Borough Council might be needed on an annual basis to consider the annual report. The Chief Finance Officer replied that a project group had been established to take this partnership forward and the Group would be looking at governance issues. The point was made that shared services were likely to increase in other areas of the Council and there was a need to think about any resulting governance issues.

One Member asked if officers had looked at the performance of Gravesham Borough Council's audit team. The Chief Finance Officer commented that this had not yet happened but the shared management service between the two councils had worked very well and the demographics of both areas were similar. In response a Member expressed concern at this omission and felt it was critical that this issue was looked at before the project proceeded further.

Regarding a question about the possibility of further expanding the shared audit service, Members were advised that most councils in the area were already in some form of partnership so the scope for this was limited.

Decision:

The Committee agreed to note the report.

362 Treasury Management Strategy Mid Year Review Report 2015/2016

Discussion:

Members considered a report regarding the mid year review of the Treasury Management Strategy 2015/16. The report also proposed a change to the strategy to include property funds in the list of approved investments.

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Members considered a report regarding the mid year review of the Treasury Management Strategy 2015/16. The report also proposed a change to the strategy to include property funds in the list of approved investments.

With regard to the latter (The Local Authorities Property Fund), Members discussed the volatile state of the global economy and the unlikelihood of interest rates rising. This therefore meant that returns would continue to be very low when compared with the consistent and higher annual yields provided by property funds of the type proposed. The Committee were generally supportive of the proposal, although one Member, whilst not against the idea in principle, queried whether this was the right time to make the change given the current economic instability. In order to ensure that the slightly higher risks presented by the product were managed, a £5m counter party limit for such investments was proposed. This was supported by the Committee and the Chief Finance Officer.

One Member expressed some concern as to whether the proposal could potentially be used to undermine the current Constitutional safeguards regarding the capital programme. The Chief Finance Officer replied that the fund was a Local Authority Property Fund approved by HM Treasury and confirmed that he would be able to make investments without recourse to Members. He added that direct investment in property and most other property funds would be deemed to be capital expenditure and would still be subject to the safeguards in the Constitution referred to. The Local Authorities Property Fund was however exempt from these rules.

Some Members asked for further details about the scheme, such as annual and historic returns (over the last 20 years), the scheme's credit rating and which Councils participated in the scheme.

In response to a question, the Chief Finance Officer stated that whilst the proposal represented an increased risk, it was a measured risk in light of the likely returns and given the modest sums proposed he did not feel it affected the Council's risk profile significantly.

Decision:

The Committee agreed to:

- a) note the report
- b) ask Cabinet to recommend to Council the mid-year review of the Treasury Management Strategy 2015/16, as set out the report.
- c) ask Cabinet to recommend to Council that the Treasury Management Strategy be revised to add property funds to the list of non-specified investments, subject to a £5m counter-party limit for such investments.
- d) ask the Chief Finance Officer to provide further details of the property fund scheme/product to Cabinet.

363 Internal Audit Update

Discussion:

Members considered a report regarding the internal audit work completed since the meeting of the Audit Committee on 14 July 2015.

A Member asked which reviews were not likely to be concluded by the end of 2015/16 given that a number had not yet been started. The Chief Finance Officer replied that he believed the key elements of the audit programme were deliverable.

In response to a question about children's centres, a Member was given an assurance that the audit reviews had not shown there to be any major issues.

A Member asked for a progress report on the ring fenced fund set up to provide training on governance issues for Head teachers and Governing Bodies following the misappropriation of funds from Temple Mill Primary School.

Decision:

The Committee agreed to:

- a) note progress on the 2015-16 Internal Audit Plan and the outcomes of the work of Internal Audit.
- b) ask for a report at the January 2016 meeting on the ring fenced fund set up to provide training on governance issues for Head teachers and Governing Bodies of all Medway Schools following the misappropriation of funds from Temple Mill Primary School.
- c) ask that further guidance be sent to schools on remuneration levels and performance related pay.

364 Exclusion of the press and public

Decision:

The Committee agreed to exclude the press and public during consideration of the exempt appendix to the Internal Audit Update report because consideration of this matter in public would disclose information falling within paragraphs 1 and 2 of the descriptions of exempt information contained in Schedule 12A to the Local Government Act 1972 and, in all the circumstances of the case, the public interest in maintaining the exemption, outweighs the public interest in disclosing the information.

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Chairman

Date:

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