

Medway Council
Meeting of Audit Committee
Tuesday, 12 January 2016
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 and Tejan

Substitutes: Councillors:
Griffiths (Substitute for Osborne)

In Attendance: Katey Arrowsmith, Head of Internal Audit and Counter Fraud
Perry Holmes, Chief Legal Officer/Monitoring Officer
Jonathan Lloyd, Principal Accountant
Janice Wellard, Fraud Manager
Michael Turner, Democratic Services Officer
Sabine Voigt, Interim Head of Fostering Service
Phil Watts, Chief Finance Officer
David Eagles, Engagement Leader, BDO
Alison Langridge, BDO
Ryan Barlow, BDO

599 Apologies for absence

An apology for absence was received from Councillor Osborne.

600 Record of meeting

The record of the meeting held on 24 September 2015 was agreed and signed by the Chairman as a correct record.

601 Urgent matters by reason of special circumstances

The Chairman reported that he had agreed to accept the Annual Governance Report – Progress on Implementing recommendations as urgent because the next meeting of this Committee would not take place until 22 March 2016 and the Committee had previously asked for regular reports on this issue. In addition, it had not been possible to include this report in the main agenda to enable it to reflect the outcome of a meeting between Council officers and BDO staff following the main agenda publication.

602 Declarations of disclosable pecuniary interests and other interests

Audit Committee, 12 January 2016

Disclosable pecuniary interests

There were none.

Other interests

There were none.

603 Update on Fostering Disclosure and Barring Service Checks

Discussion:

The Head of Fostering Service introduced a report which provided an update on progress against the recommendations in the audit report of Disclosure and Barring Service (DBS) checks in the Fostering service. This followed a report to the Audit Committee in January 2015 on this matter where Members had requested a progress report (see minute no. 660).

The Committee were advised that the Council would be moving to an electronic DBS checking system, possibly in April 2016. Once clarification was obtained as to when this new corporate system would be introduced a decision would be taken whether the Fostering Service should move to an interim electronic DBS checking system prior to using the corporate system. Members were assured that it would be relatively straightforward to transfer information to the new corporate system from the interim system, should that option be chosen. An electronic DBS checking system would reduce waiting times with over 50% of standard disclosures results received within 24 hours and on average all disclosure results received in less than 5 days. A Member pointed out that a moratorium on new ICT systems was imminent although in exceptional circumstances new systems would be allowed.

Members discussed the statistics in the report showing progress with DBS checks in relation to lead carers, secondary carers and support networks. A Member expressed some concern at the numbers involved and asked if comparative information with other similar councils could be provided as if a similar picture was shown then this would give some assurance. Another Member felt the focus should be on the situation in Medway and pointed out 65 people appeared to have no DBS checks. However the report did not distinguish between those who did not appear to have a current DBS check as opposed to being in the process of being checked and he felt it would be helpful if these figures were disaggregated. It was queried how long a foster carer without a DBS check would be allowed to continue as a carer.

Members welcomed the fact that spot checks on carers' DBS checks were being carried out and asked what numbers were involved. The Head of Fostering Service replied that she did not have the figures but would expect to see at least 10% checked. Members asked for a briefing note on this. She added that she did not have any comparative information but could try to obtain it. The aim of the service was to have 100% compliance. Where people did not

Audit Committee, 12 January 2016

have a DBS check this was usually due to administrative issues and to be reassured that children were safe, Police National Computer checks were completed for those carers with a DBS showing as outstanding. It could take up to three months for DBS checks to be returned but there were protocols in place so delays could be escalated and not all checks took up to three months. In response to a question about the possibility of real time checking she advised this was not possible as the IT systems of the various agencies involved did not talk to each other.

Members expressed concern that DBS checks could be taking up to three months and commented this had implications not just for recruiting and retaining good foster carers but also teachers. It was suggested that a letter be sent to DBS Services giving examples of where this had happened and asking for an explanation and what was being done to address the situation.

Decision:

The Committee agreed to:

- a) note the progress made in verifying DBS checks for foster carers, family members and regular visitors.
- b) ask the Monitoring Officer to write to DBS Services expressing concern that it can take up to three months to process a DBS check, giving examples of such occasions and asking what was being done to address these situations.
- c) ask for a briefing note on how spot checks on carers' DBS checks operated, including the numbers involved, and also a further briefing note in 6 months time on progress generally.

604 Annual Audit Letter 2014/15

Discussion:

The Chief Finance Officer introduced this report regarding the work carried out by BDO, the Council's external auditors, in respect of the 2014/15 financial year.

Decision:

The Committee agreed to note the content of the Annual Audit Letter for 2014/15.

Audit Committee, 12 January 2016

605 Corporate Fraud

Discussion:

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

Regarding the transfer of responsibility for the investigation of housing benefit fraud to the Single Fraud Investigation Services (S-FIS) on 1 March 2016, a Member asked if formal and informal co-operation would take place between the Council and S-FIS to avoid a duplication of investigation and litigation action. The Fraud Manager replied that she hoped this would be the case but could not say for certain at this point. A six month pilot exercise had begun in November 2015 to look at joint working between DWP and local authority fraud teams and a national steer on collaborative working was awaited. Members asked to be sent details of the latter if it was released before 1 March and provided clarity on the issue of collaborative working.

Decision:

The Committee agreed to note progress in investigating fraud in accordance with the approved Anti-Fraud and Corruption policy.

606 Fraud Resilience Strategy 2014-2016 Update

Discussion:

The Fraud Manager presented this report which provided Members with an update on the work of the Audit and Counter Fraud Team against the agreed Fraud Resilience Strategy 2014-2016.

In response to a question about adopting a shared strategy between Medway and Gravesham (recognising the differences in responsibilities between the two authorities), the Head of Internal Audit and Counter Fraud advised that a combined strategy for internal audit and counter fraud across the two councils was being developed and it was expected this would be submitted to the next meeting.

A Member referred to grant fraud (one of the key risk areas identified in the Strategy) and asked if consideration could be given to advice and support being provided by the Internal Audit and Counter Fraud to grass roots community groups who could sometimes be in the position of bidding for large sums of public funds. He felt it was important the Council made sure as far as it could that such groups were dealing with public money effectively. The Head of Internal Audit and Counter Fraud commented this was something that could be looked at and built into the Strategy.

Audit Committee, 12 January 2016

Decision:

The Committee agreed to note progress in the delivery of the Fraud Resilience Strategy.

607 Internal Audit Update

Discussion:

The Head of Internal Audit and Counter Fraud introduced this report which informed Members of the internal audit work completed since the meeting of the Audit Committee on 24 September 2015.

With regard to the housing maintenance audit and the recommendation that there should be enhancements to improve the transparency of the open book accountancy, a Member asked for more information about this recommendation and whether it had been accepted. The Head of Internal Audit and Counter Fraud replied that this related to the way the accounts were presented (ie as summary lines) and was aimed at providing more assurance, although there were no underlying concerns. The recommendation had been accepted.

Decision:

The Committee agreed to note progress on the 2015-16 Internal Audit Plan and the outcomes of the work of Internal Audit.

608 Revised Internal Audit Plan 2015-16

Discussion:

The Head of Internal Audit and Counter Fraud introduced this report which advised Members of the reduction in internal audit resources available during the 2015-16 financial year and sought approval from the Committee for a revised Internal Audit Plan for the year.

The Engagement Lead at the Council's external auditor BDO referred to references in the revised plan which stated that the Council's external auditors provided assurance through their financial statements audit and clarified that it was not their role to provide assurances on operational controls underpinning financial systems. The Head of Internal Audit and Counter Fraud replied that it had not been the intention to suggest this but rather that the Council would be advised by BDO of any major issues affecting the Council's financial systems and this had not happened.

Members felt the revised approach was sensible and asked BDO for their views. The Engagement Lead replied the risk based approach seemed sensible, as did a cyclical review of key financial systems based on

Audit Committee, 12 January 2016

assessments that nothing had changed since the last review, although BDO were likely to look at the evidence for such assessments.

Decision:

The Committee agreed to approve the Revised Annual Internal Audit Plan 2015-16 as the work programme for the team for the remainder of the financial year, recognising the comments from Members and BDO about the revised approach.

609 Annual Governance Report- Progress on Implementing Recommendations

Discussion:

The Chief Finance Officer introduced this report which provided Members with an update on progress on implementing the recommendations in the Annual Governance Report which had been presented to the Audit Committee on 24 September 2015. The Committee had asked for regular reports on progress in implementing the recommendations (see minute no. 359). He highlighted that in response to the need to review current resources and for timetables to be in place to ensure the Council was prepared for the earlier deadline in two years' time for the closure of accounts, that no additional resources were available but he had agreed to shorten the timetable for the preparation of accounts by one month in 2016/17.

Some Members referred to the decision that in future only officers who met the definition of a statutory chief officer or Head of Service who reported to the Head of Paid Service would be included in the disclosure regarding senior officers' remuneration, following over disclosure in 2014/15. They argued that in the interests of transparency the Council should continue to publish details of senior officers' pay as previously. BDO commented that the approach had been recommended so that it was clear to the public what the remuneration levels were for those senior officers taking key decisions within the Council. This was consistent with CIPFA principles aimed at making it easier for the public to scrutinise the accounts. It was nevertheless felt by some Members that over disclosure was still in the public interest and, recognising the increasing pressures on finalising the Statement of Accounts and the need to make best use of limited resources, suggested this need not happen as part of the Statement of Accounts. It was agreed this issue would be discussed further outside the meeting.

Decision:

The Committee agreed to note the contents of the report and the progress addressing the issues raised in the Annual Governance Report.

610 Treasury Management Strategy 2016/2017

Audit Committee, 12 January 2016

Discussion:

The Chief Finance Officer introduced this report which presented the Council's Treasury Management Strategy for the 2016/2017 financial year. The Treasury Management Strategy incorporated within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy. The Committee was requested to consider a change to the latter.

Members discussed the proposal to revise the Minimum Revenue Provision (MRP) Policy by changing to an annuity method of allocating amounts of MRP to each year of asset life. This would result in revenue savings of around £2.7m in 2016/17. The majority of the Council's debts matured in 50-60 years time and the proposed change would mean lower provision being set aside in early years which would increase modestly over the life of the debts. Some Members felt there was insufficient information about the consequences of this in the future to decide whether it was a reasonable and prudent approach. It was argued that the savings that would be released now were not in itself a strong enough argument for change. The Chief Finance Officer offered to provide information showing the annual revenue provision over a 40 year period as a result of the proposal compared to the existing system. A Member asked whether the annual increase in the MRP could be justified by inflation. The Chief Finance Officer explained that whilst the annuity calculation had little to do with inflation the year on year effect in cash terms was broadly similar.

It was proposed that the report be noted and further information be provided regarding the proposed changes to the Minimum Revenue Provision Policy to demonstrate the prudence of the approach. This proposal was put to the vote and lost.

It was then proposed that the Committee should recommend approval of the changes to the MRP and this was agreed.

Decision:

The Committee agreed to:

- (a) note the contents of the report;
- (b) recommend approval of the proposed changes in the Minimum Revenue Provision Policy, to take effect from the 2015/16 financial year onwards; and
- (c) ask for further information to be provided showing annual revenue provision over 40 years as per the proposals compared to the existing Minimum Revenue Provision policy.

Note – in accordance with Council Procedure Rule 12.6 of Chapter 4 of the Council's Constitution, Councillors Griffiths and Maple asked that it be recorded that they had voted for the proposal to note the report and that further

Audit Committee, 12 January 2016

information be provided regarding the proposed changes to the Minimum Revenue Provision Policy to demonstrate the prudence of the approach.

611 Whistle Blowing, Anti Bribery and Anti Money Laundering Policies: Report on Instances September 2014 – September 2015

Discussion:

The Monitoring Officer presented this report which advised Members about the nature of concerns raised, between September 2014 and September 2015, under the Council's Whistleblowing, Anti-Bribery and Anti-Money Laundering Policies.

Decision:

The Committee agreed to note the contents of the report.

612 Audit and Counter Fraud Shared Service Update

Discussion:

The Chief Finance Officer introduced a report which provided Members with an update on the implementation of the Shared Service 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 were advised that the lessons learned from the shared service project would be shared across the Council given the likelihood of further similar arrangements in the future. A Member referred to the various exemptions to the democratic process which had been necessary through the process and hoped that lessons had also been learned in terms of governance for the future.

In response to questions about the security of the shared IT service used in both councils, Members accepted assurances given at the meeting that the systems were secure and information could not be stored on the laptops used by the team, which were also encrypted. Access to the Council's data was only possible over a secure network.

Decision:

The Committee agreed to note the contents of the report.

613 Fraud Awareness Training

Audit Committee, 12 January 2016

Discussion:

The Chief Finance Officer introduced this report which provided Members with an update on the deployment of funds allocated for school governor training in relation to fraud awareness.

Members welcomed the series of short fraud awareness films that had been commissioned to increase the level of fraud awareness for school governors and also that they could be sold to other authorities on a commercial basis. However, they felt it had taken too long to get to this point since the Committee had made its recommendations to Cabinet in September 2013 following the misappropriation of funds at Temple Mill Primary School.

The Chief Finance Officer stated that a viewing of the proposed films were being arranged in March or April. Members welcomed a suggestion that they be invited to this to give their views before the films were finalised.

Decision:

The Committee agreed to note the contents of the report.

614 Exclusion of the press and public

The press and public were excluded from the meeting during consideration of the exempt material contained within the appendix to agenda item 7 (Corporate Fraud) because consideration of this matter in public would disclose information falling within paragraph 2 of Part 1 of Schedule 12A to the Local Government Act 1972 as specified in agenda item 16 (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.

615 Corporate Fraud

Discussion:

The Committee considered an exempt appendix to agenda item 7 (Corporate Fraud) which set out details of internal investigations concluded in quarter 2 2015/16.

Decision:

The Committee agreed to note the report.

Audit Committee, 12 January 2016

Chairman

Date:

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