

**Medway Council**  
**Meeting of Audit Committee**  
**Tuesday, 22 March 2016**  
**7.00pm to 9.00pm**

**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:** Phil Watts, Chief Finance Officer  
Perry Holmes, Chief Legal Officer/Monitoring Officer  
Katey Arrowsmith, Head of Audit and Counter Fraud Shared Service  
Michael Turner, Democratic Services Officer  
James Larkin, Audit & Counter Fraud Shared Services Manager  
Ryan Barlow, BDO  
David Eagles, Engagement Leader, BDO

**880 Apologies for absence**

An apology for absence was submitted from Councillor Osborne.

**881 Record of meeting**

The record of the meeting held on 12 January 2016 was agreed and signed by the Chairman as a correct record.

At the previous meeting of the Committee (minute no 603 - Update on Fostering Disclosure and Barring Services (DBS) Checks), Members had asked for a letter be sent to DBS Services expressing concern that DBS checks could be taking up to three months and giving examples. The Chief Legal Officer reported that, after discussions with colleagues on this matter, it was not possible to quote actual examples but he intended to write to DBS services pointing out that for DBS applications about prospective foster carers in the period March 2015 to March 2016, out of 351 DBS applications processed the quickest check had been 3 days and the longest 135, with an average of 27 days. Members concurred with this approach.

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

There were none.

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

Disclosable pecuniary interests

There were none.

Other interests

There were none.

Councillor Griffiths disclosed an interest in any matter relating to Medway Community Healthcare and Danecourt Special School

**884 Internal Audit Update (2015/16 Plan)**

**Discussion:**

The Head of Audit and Counter Fraud presented a report which informed Members of the internal audit work completed since the meeting of the Audit Committee held on 12 January 2016.

With regard to the audit review of planning which had concluded with an overall strong opinion of the planning process, Members commented that this conclusion reflected their positive experiences of the Council's planning team. The team had consistently performed well often under strong public scrutiny, particularly when dealing with high profile planning applications. The Committee asked that their appreciation be passed on to the team.

Regarding the internal audit review into debtors, one finding from this review had been that it was good practice to produce an annual report of all debt written off for presentation to Cabinet. The Committee asked the Monitoring Officer to investigate if this could be included in the Constitution as part of the current constitutional review.

Commenting on the process for creating new debtors, a Member queried whether, in light of the Council's digitalisation agenda, the process could be streamlined and made more efficient. The Head of Audit and Counter Fraud responded that the Finance team were very proactive in streamlining processes and receptive to change, but it was important that a separation existed so that requests to create new debtors was distinct from the Exchequer Service Team who approved such requests.

**Decision:**

The Committee agreed to:

- a) note progress on the 2015-16 Internal Audit Plan and the outcomes of the work of Internal Audit;

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- b) recommend that the Constitution be amended to include a reference to a requirement to submit an annual report to Cabinet on all debt written off;
- c) ask the Monitoring Officer to investigate whether the requirement set out in b) could be addressed within the current Constitutional review;
- d) ask officers to convey Members' appreciation to the planning team on the very positive outcome of the audit review into planning.

### 885 Corporate Fraud Update

#### Discussion:

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

Noting that responsibility for the investigation of benefit fraud had transferred to the Single Fraud Investigation Service (SFIS), a Member suggested that SFIS be invited to attend a meeting of the Audit Committee on an annual basis to discuss trends and issues of common concern regarding fraud. It was felt that an ongoing dialogue between the Council and SFIS would be beneficial to both parties and was important given the Council's responsibility to act as a guardian of public finances, including housing benefit. Other Members supported this and commented on the significant increase in housing benefit fraud over the last two years. Officers agreed to look into the suggestion that SFIS enter into a dialogue with the Committee and also advised that the increasing use of more real time information in recent years and recognition of trends had led to more frauds being discovered. It was expected that the figures would now plateau.

In terms of the total amount of fraud reported, a significant amount of the overpayments did not impact on the Council as they were state benefits handled by the Department for Work and Pensions (DWP). Officers were taking a proactive approach to maintaining a flow of information with SFIS and it was hoped that information could be provided to the Committee on the work SFIS had done, including the number of cases dealt with and the total figures involved. This proactive approach was welcomed by the Committee.

The Council's threshold for prosecution were lower than the DWP's. Where the DWP decided not to prosecute and issue an administrative penalty (effectively a fine) as an alternative sanction then the latter would need to be authorised by the Council. The Council would then take into account personal factors and if there was no possibility of the debt being recovered a debt would not be created.

A Member asked if the Council's lower threshold for prosecuting fraud could lead to more low level fraud. The Committee were advised that where the Council decided not to issue an administrative penalty, the DWP would then prosecute, but in either case action would still be taken to regularise claims. Where the DWP decided not to prosecute in cases of lower level fraud the

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Council still administered the benefits and it was for the Council to recover overpayments.

A Member asked for figures on the numbers of people who defaulted. Experience from Gravesham showed that most people had arrangements in place to repay administrative penalties. The Council did not breakdown housing benefit overpayments as a result of fraud as opposed to council or claimant error.

In response to a query from a Member about how fraud could arise in the case of discretionary housing payments, the Head of Audit and Counter Fraud commented that these payments could only be made where a person was in receipt of benefits. Her assumption was the fraud occurred in cases where a person had misrepresented their situation and was not entitled to benefits, and therefore was not entitled to the Discretionary Housing Payment. However, she undertook to look into this and provide more details to the Member.

In terms of what was done to prevent fraud and the causes of fraud, the Head of Audit and Counter Fraud advised that there were a number of measures in place including staff training, the fraud proofing reviews of systems conducted by her team and recommendations made through other audit and fraud work on how to improve controls where fraud had occurred. In addition, the Council's digitalisation agenda would make it easier for claimants to provide correct information in the first place and this would therefore reduce errors.

### **Decision:**

The Committee agreed to:

- a) note progress in investigating fraud in accordance with the approved Anti-Fraud and Corruption policy and;
- b) invite representatives from the Single Fraud Investigation Service (SFIS) to attend a meeting of the Audit Committee on an annual basis to discuss trends and issues of common concern regarding fraud.

## **886 Annual Governance Report - Progress on Implementing Recommendations**

### **Discussion:**

The Chief Finance Officer presented a report which detailed progress on implementing the recommendations in the Annual Governance Report since the January meeting of the Committee (see minute no 609). The report also included the External Audit plan for the audit of the accounts for the financial year 2015/16.

As mentioned at the previous meeting, BDO had recommended that the Council review the content of the Senior Officers' Remuneration Note to ensure that the disclosures were in line with the Code of Practice on Local Authority

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Accounting and only identified those officers who reported directly to the Head of Paid Service. The Council's response was that only officers who met the definition of a statutory Chief Officer or Head of Service that reported directly to the Head of Paid Service would be included in the disclosure but other senior officer remuneration details could be reported via the data transparency route and the Chief Finance Officer would be consulting with members on how this could be best done. Following a discussion about the most appropriate mechanism to report these details and the extent to which senior officers' remuneration outside the Code should be reported, BDO commented that the intention behind the Code was for officers with decision making roles to be identified. However, if the Council was to publish more than was required then BDO would be content with this approach as long as the officers who met the criteria set out in the Code were clearly identified. Members agreed with this approach and also with a suggestion that posts at Assistant Director level and above should be included.

With regard to the recommendation that management should review and revisit current resources and timetables in place to ensure that they were prepared for the earlier deadline for the closure of accounts that would be imposed in two years' time, BDO queried again whether sufficient resources were available to meet these deadlines and also improve the quality of accounts and reduce the number of errors. The issue of resources was not just about the numbers in the finance team but referred also to the wider support across the Council that the team needed. BDO added that it was important that a clear message was sent to the rest of the organisation about what was needed to meet the new timescales for the closure of the accounts. The Chief Finance Officer commented that he had already made it clear to the Council that the deadlines were being brought forward in 2016/17 and as such he would require cooperation across the organisation to meet the new deadlines. The priority for accountants from 1 April onwards was to close the accounts and training on this had been provided. By bringing forward the timescales for the closure of accounts two years earlier than strictly necessary, it was hoped that issues and pressure points could be identified in time and overcome before the new required timescales were in place. Whilst acknowledging the assurances from the Chief Finance Officer, some Members commented that BDO's concerns about whether sufficient resources were available had been made clear and they would continue to monitor the Council on this matter.

Referring to the External Audit Plan, BDO stated that a key focus would be the financial pressures facing the Council and how it planned to respond to these in the medium term. A Member added that this was made more challenging by the many uncertainties and unknowns regarding local government finance and asked how far BDO would take this into account in their audit process. BDO accepted that there would always be unknowns which would be taken into account as far as possible before issuing an opinion. BDO's primary focus was to look at what had happened in the course of the year. From 1 April onwards they would carry out a reality check to see if the Council was still on track with its plans. If it was then a qualified opinion was unlikely.

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A Member asked what BDO was doing to test the ability of the Council to cope with unexpected developments such as a major industry in the area closing down. BDO replied that they would not look to challenge the Council's policy decisions and accepted that things would go wrong. However, if the Council was heading in a strategic direction within an agreed framework and decisions were thoroughly considered and risk assessed then BDO was likely to be supportive.

In response to a question whether the Council's levels of reserves were adequate to meet potential risks, BDO responded that external audit could never give an assurance on this question but confirmed the Council's reserves policy was not unreasonable.

### **Decision:**

The Committee agreed to:

- a) approve the proposed annual audit plan for 2015/16;
- b) note the contents of the Planning Letter 2015/16 and
- c) note the contents of the report and the progress addressing the issues raised in the Annual Governance Report.
- d) recommend that the Chief Finance Officer include in the draft statement of accounts details of the salaries of all officers at Assistant Director level and above, indicating which posts are required to be included under the Code of Practice on Local Authority Accounting

## **887 External Audit Grant Claim Report**

### **Discussion:**

The Committee considered a report regarding the work carried out by BDO, the Council's external auditor, in respect of the certification of grant claims for the financial year ended 31 March 2015.

A Member referred to problems which the auditors had identified with the way the Northgate system operated and asked if it was fit for purpose. BDO replied that there was only one other alternative on the market and that also had faults. The main difficulty was that this was a very complex area subject to frequent change which any system would struggle to keep pace with. Northgate were working to try and resolve the software problems and it was otherwise a good product. The Chief Finance Officer added that the errors resulting from the problems were not significant in the context of approximately £100m paid in benefits.

Regarding the likelihood of all schools becoming academies, some Members asked what responsibilities would remain with the Council regarding teachers'

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pensions. The Chief Finance Officer replied that the Council would retain responsibility for a very small number of non school based teachers. The Council had written to schools to offer help with the move to becoming an academy and was already looking at the implications for the Council of mass academisation. A Member noted that where a school converted to an academy with a deficit this would become the responsibility of the Council and he asked what was being done to ensure schools did not leave deficits which could not be justified. The Chief Finance Officer acknowledged there was a potential for this but the finance team would monitor schools' budgets for excessive expenditure in the run up to conversion. Ultimately the Chief Finance Officer could remove a school's delegated powers but that would be a measure of last resort.

### **Decision:**

The Committee agreed to note the external auditor's grant audit report for 2014/2015, as set out at Appendix 1, including the proposed Action Plan to achieve further improvements to the accuracy of the grant claims submitted to government departments.

## **888 Audit and Counter Fraud Strategy 2016-20**

### **Discussion:**

The Head of Audit and Counter Fraud presented a report regarding the Audit & Counter Fraud Strategy 2016-2020 for Members' approval.

Members discussed the possibility of joint meetings between the audit committees of Medway Council and Gravesham Borough Council and whether the minutes of audit committee meetings should be shared between the two councils. It was suggested that no immediate steps be taken to set up joint meetings but one would be required in 2019 to discuss the new Audit and Counter Fraud Strategy.

### **Decision:**

The Committee agreed to:

- a) approve the Audit and Counter Fraud Strategy presented at Appendix A to the report
- b) invite Gravesham BC's Audit Committee to a joint meeting in 2019 to discuss the new Audit and Counter Fraud Strategy
- c) include on future agendas the minutes of Gravesham BC's Audit Committee and offer to share the minutes of this Committee with Gravesham BC.

**889 Audit and Counter Fraud Charter**

**Discussion:**

The Head of Audit and Counter Fraud presented a report regarding the Audit & Counter Fraud Charter for Members' approval.

**Decision:**

The Committee agreed to approve the Audit and Counter Fraud Charter presented at Appendix A to the report.

**890 Annual Audit and Counter Fraud Plan 2016-17**

**Discussion:**

The Head of Audit and Counter Fraud presented a report regarding the Audit & Counter Fraud Plan for Medway for 2016-17 for Members' approval.

A Member referred to a reference to external contractors being used if an activity planned was found to require specialist skills or experience beyond that of the team and asked if a budget had been set aside for this. The Head of Audit and Counter Fraud replied that there was not a specific budget as reciprocal arrangements with Kent County Council had been agreed.

The point was made that the requirement to maintain heritage assets could sometimes conflict with the resources available to carry out this work.

In response to a query about staff training for the audit and counter fraud team, the Committee were advised that a workforce development plan was being drawn up which would set out training needs and how these could be best met so that staff were fully supported to deliver the work needed.

A Member asked if 10 days was sufficient for fraud awareness activity. The Head of Audit and Counter Fraud that this was an estimate and would be reviewed if necessary. In addition, it did not include the significant time the managers in the team spent on fraud awareness.

A Member suggested that the monitoring and review section of the Plan be strengthened by adding a reference to the fact that 2016-17 would be a year of significant change for the shared service, particularly in terms of the relationship with the Department for Works and Pensions.

**Decision:**

The Committee agreed to approve the Audit and Counter Fraud Plan 2016-17 presented at Appendix A to the report, subject to the narrative being amended to recognise the significant changes affecting the team in 2016-17.



**891 Audit and Counter Fraud Quality Assurance and Improvement Programme 2016-2017**

**Discussion:**

The Head of Audit and Counter Fraud presented a report regarding the Audit and Counter Fraud Quality Assurance and Improvement Programme for Members' approval.

An expanded suite of performance indicators had been developed and the Committee would receive performance information in future. There were not mechanisms in place to measure all of the indicators at present and therefore some targets may need to be revised. A Member commented that this should probably be seen as a work in progress as it was unclear how some of these indicators would be measured (e.g. Member satisfaction being positive).

Regarding the customer facing targets, the service currently carried out bi-annual surveys of customer satisfaction among key clients and also following each individual review. There used to be a requirement to carry out an annual review of the effectiveness of internal audit and officers would look at building in something similar in an annual report to the Committee.

BDO suggested that in relation to the indicator regarding the opinion of external audit indicator this might be better phrased as the ability of external audit to rely on work where relevant. The Committee agreed with this suggestion.

**Decision:**

The Committee agreed to approve the Audit and Counter Fraud Quality Assurance and Improvement Programme 2016-17 presented at Appendix A to the report, subject to the amendment suggested by BDO regarding the opinion of external audit target as set out above.

**Chairman**

**Date:**

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