

Medway Council
Meeting of Audit Committee
Wednesday, 30 June 2010
7.00pm to 9.10pm

Record of the meeting

Present: Councillors: Andrews, Clarke (Chairman), Griffiths, Jarrett and Juby

In Attendance: Peter Bown, Accounting Manager
Robert Grant, Partner PKF
Mick Hayward, Chief Finance Officer
Richard Humphrey, Audit Services Manager
Anthony Law, Cabinet Coordinator
Deborah Upton, Assistant Director, Housing and Corporate Services

109 Record of Meetings

The record of the meeting held on 11 March 2010 and the Joint Meeting of All Committees held on 19 May 2010 were agreed and signed by the Chairman as correct.

110 Apologies for Absence

There were none.

111 Urgent Matters by Reason of Special Circumstances

There were none.

112 Declarations of Interest

Councillor Clarke declared a personal interest in any item concerning St Mary's Island Primary School, as his wife is an employee.

Councillor Griffiths declared a personal interest in any item concerning Danecourt School, as his wife is an employee and in any reference to NHS Medway on the grounds that he is a non-executive director of NHS Medway.

113 Statement of Accounts 2009/2010

Discussion:

The Chief Finance Officer presented the Council's Statement of Accounts for 2009/2010, which were required under the Accounts and Audit Regulations 2003 (as amended). The Cabinet had considered and approved the actions

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taken in producing the Statement of Accounts on 29 June 2010 and recommended to the committee that it approve the statements as submitted.

The Chief Finance Officer detailed the contents of the accounts, explaining the contents of the core financial statements and their accompanying notes. The accounts detailed a revenue underspend of £2.207 million for 2009/2010 and reported that capital expenditure for 2009/2010 amounted to £63.40 million. It was also highlighted that available reserves amounted to approximately £16.7 million.

The summary financial positions for both the Housing Revenue Account and Delegated Schools Budget were also reported, as were the principal variations to agreed budgets. The Accounting Manager explained to Members the major changes to the accounts, such as the requirement to include an estimate of the cost of accrued leave and flexitime at the year end.

A revision to Note 5 'Officers' Emoluments' was tabled at the meeting, which amended the details of senior employee remuneration, as shown on page 20 of the accounts.

Members discussed the contents of the accounts and received clarification on: the use of reserves to reduce the benefits payments overspend and the need for the council to hold euro accounts to receive European grants. Officers were asked to investigate the reported parking services overspend and the Chief Finance Officer undertook, following questions concerning the 'Accumulated Absences Account', to provide Members with details of the Council's annual leave and flexi-time policies. The committee asked that the Briefing Note requested by the Children and Adults Overview and Scrutiny Committee in January 2010, detailing school deficits and subsequent action plans to address these deficits was circulated to all Members of the Audit Committee.

During their discussion Members requested that the draft Statement of Accounts was amended as follows:

- Note 5 'Officers' Emoluments' is expanded to set out details of senior employees working in the various types of school within Medway. Officers were requested to write to the governors of schools requesting this information and to highlight within the revised Note 5 those schools that had not provided these details
- Note 8 'Capital Receipts' is revised to clarify the availability of capital receipts to fund capital expenditure after the pooling arrangements for Housing Revenue Account (HRA) dwellings
- Note 11 'Movement on Fixed Assets' is expanded to identify which schools are included within the fixed assets set out within the Balance Sheet (page 23 of the accounts).

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 auditor.

Decision:

The Audit Committee approved the draft Statement of Accounts for 2009/2010 subject to:

- (a) Note 5 'Officers' Emoluments' (as tabled at the meeting) being expanded to set out details of senior employees working in the various types of school within Medway and highlighting those schools that had failed to provide this information;
- (b) Note 8 'Capital Receipts' being revised to clarify the availability of capital receipts to fund capital expenditure after the pooling arrangements for Housing Revenue Account (HRA) dwellings;
- (c) Note 11 'Movement on Fixed Assets' being expanded to identify which schools are included within the fixed assets set out within the Balance Sheet.

114 Treasury Management Outturn Annual Report

Discussion:

This report provided an overview of treasury management activity during 2009/2010, in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice 2009 that had been adopted by the Council in February 2000. The Cabinet had considered the annual outturn report on 29 June 2010 and recommended its approval to the Audit Committee.

The report covered a number of issues including the Council's treasury position as at 31 March 2010, borrowing activity in 2009/2010, performance measurement, the strategy for 2009/2010, the economy and interest rates in 2009/2010, borrowing and investment rates, the borrowing outturn, compliance with treasury limits and prudential indicators, investment outturn and debt rescheduling. The outturn for the prudential indicators, as contained in the council's Treasury Strategy Statement, was set out at appendix 1 in the report.

The Chief Finance Officer detailed the contents of the report. It was noted that whilst the Interest and Financing budget was almost £600,000 short of the targeted budget, this budget had been predicated upon anticipated earnings higher than those achievable in the current economic climate. Members were informed that using cash balances to finance new capital expenditure or maturing debt had mitigated the loss in interest earnings by running down cash balances and minimise counterparty risk incurred on investment.

Decision:

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

115 External Audit Fee 2010/2011

Discussion:

Robert Grant, from the council's external auditors (PKF), introduced a report and accompanying letter setting out the external auditor's fees for 2010/2011.

It was noted that the indicative fee for 2010/2011 was £349,000 and that the Audit Commission would subsidise the council by refunding £21,486. In addition to the fee the cost of Grant Claim work was estimated at £79,000.

Members were advised of the reports that would be produced by the external auditor, which included a detailed audit plan that would be submitted to the Committee in December 2010. The indicative key risks in relation to the value for money audit were highlighted, as well as the risk associated with the transition to International Financial Reporting Standards.

In response to a Member's request the external auditor undertook to provide the Committee in September details of the data that would be used as part of the value for money assessment.

It was noted that officers and the external auditor were exploring whether the overall cost to the council could be reduced by internal audit under external audit supervision completing some of the grant claim verification.

Decision:

The Audit Committee noted the external auditor's 2010/2011 indicative fee, the Audit Commission subsidy and the option being explored by officers to reduce the overall cost to the Council.

116 Internal Audit Annual Report

Discussion:

This report informed the Committee of the overall opinion on control for 2009/2010 based on internal audit's work. It was noted that the findings would assist Members when considering the Annual Governance Statement.

Members were informed that the overall operation of financial control had been assessed as satisfactory, with only the Housing Rents financial systems being assessed as 'insufficient'. Members were also advised that none of the irregularity investigations had a material impact on the overall assessment.

It was reported that the system of corporate governance had also been found to be sound, whilst improvements required to strengthen the control environment in the risk management process and the Council's arrangements to prevent fraud and corruption were noted.

Details of internal activity undertaken during 2009/2010 were annexed to the report.

Decision:

The Audit Committee endorsed internal audit's opinions contained in the report and agreed to consider the summary of audit work, as set out in paragraph 3 of the report, when considering the Annual Governance Statement.

117 Review of Effectiveness of the Internal Audit System

Discussion:

The Chief Finance Officer introduced a report on the effectiveness of the internal audit system.

The Accounts and Audit Regulations required an annual review of the internal audit system. This formed part of the wider annual review of governance issues, leading to the approval of the Annual Governance Statement. The report set out details of assurances obtained under the areas assessed as part of this review and the key issues arising from 2009/2010 were set out in Appendix A to the report.

Decision:

The Audit Committee endorsed the approach of the review of the effectiveness of the internal audit system for 2009/2010 and the outcome of the review in support of the Committee's consideration of the Annual Governance Statement.

118 Outcomes of Audit Activity

Discussion:

The Audit Services Manager gave a brief introduction on the outcome of completed internal audit activity and the Chief Finance Officer and Audit Services Manager responded to Members' questions on a number of audits.

The Chief Finance Officer agreed to investigate and report back to the Committee on the following areas of control, as requested by Members:

- Bar Stock Control Audit - the decision taken by leisure management not to agree the medium priority recommendation relating to gross margin targets
- Corn Exchange Audit – the failure of the budget manager to formally accept the budget allocated due to reservations about its achievability.

Members expressed concern as to the number of primary and secondary schools that had failed to complete all the necessary steps to provide evidence that they meet Financial Management Standard in Schools (FMSiS). Officers advised on the implications of this upon Section 52 (of the School Standards and Framework Act 1998) statement and the potential sanctions and assured

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the committee that finance officers at Medway Council completed the 'light-touch' FMSiS assessments.

During the discussion of this item Members were also advised that quarterly reports to the Corporate Management Team on the Annual Governance Statement would include the outcome of internal audit activity.

The Audit Services Manager also agreed that future audit activity reports would include details of when audit reports were issued to management.

Decision:

The Audit Committee noted the outcome of Internal Audit's work.

119 Annual Governance Statement

Discussion:

The Monitoring Officer introduced a report that presented the 2009/2010 Annual Governance Statement.

The statement (attached to the report) summarised Medway Council's governance framework and key elements of internal control and the sources of assurance. It provided a review of the effectiveness of those governance and internal controls. A plan of proposed actions to be taken to strengthen the Council's corporate governance arrangements was also set out.

A number of issues were highlighted during the discussion on this item. This included the refresh and strengthening of the whistle blowing policy, the reporting of findings of maladministration by the Local Government Ombudsman and the review, assisted by the Council's external auditor, of the Council's procurement process.

It was noted that the Corporate Management Team had considered and endorsed the Annual Governance Statement on 16 June 2010.

Decision:

The Audit Committee approved the draft Annual Governance Statement.

120 Internal Audit Work Programme

Discussion:

This report provided an overview of the 2009/2010 internal audit work programme and details of the 2010/2011 work programme.

It was noted that the internal work programme was derived from a number of sources including the Council's risk identification process, internal audit's view

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of risk, requests from Members and officers and predetermined audits that form part of an agreed arrangements with the external auditor.

Members discussed the content of the 2010/2011 programme commenting that the:

- Capital Budgetary Control audit should include a specific focus on the schools programme
- Market Income audit should verify that the Christmas market will run at nil cost to the council
- Allocation of resources (SEN) audit should include a review of caseload procedures and how budgets are allocated within schools
- Project /Programme Management (Progress Monitoring) audit should consider the effectiveness of the council in setting original specifications.

In relation to the Highways Maintenance Contract Follow-up audit concern was expressed as to the terms of the 5 year contract, which enabled a possible extension of a further 5 years based on the contractor's performance.

Decision:

The Audit Committee approved the 2010/11 programme and noted the outcome of the 2009/10 internal audit work programme.

121 Outcomes of Housing Benefit Counter Fraud Investigations

Discussion:

The Audit Services Manager advised Members of progress in investigating allegations of Housing and Council Tax Benefit fraud during the quarter ending 31 March 2010 and responded to Members' questions.

Members were advised that the 'overpayment outstanding as at court sentencing date' for case number 10501 should be amended to read "£3,345".

It was noted that since the last report to the Committee there had been 11 successful and one unsuccessful prosecutions. Two cautions had also been issued. Details of these cases were set out in an appendix to the report. Members were also advised that in the 2009/2010 financial year the investigations team had identified £514,493 of fraudulent overpayments of Housing and Council Tax Benefit and £558,872 of Department for Work and Pensions paid benefits.

Decision:

The Audit Committee noted progress in investigating benefit fraud in accordance with the approved sanction policy.

122 Annual Review of Terms of Reference

Discussion:

The Audit Services Manager introduced a report on a review of the terms of reference for the Committee. He explained that it was good practice for the Committee to annually review the terms of reference to see whether any amendments were needed. The committee's existing terms of reference were set out in Appendix A to the report.

Members were advised that the terms of reference had been revised to reflect changes, such as an Annual Treasury Outturn report in line with the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice 2009.

Decision:

The Audit Committee confirmed that the current terms of reference met its current and expected future needs without amendment.

123 Exclusion of the Press and Public

Decision:

The Audit Committee agreed to exclude the press and public for the consideration of the appendix accompanying item 15 (Irregularity Report) as it contained information relating to an individual and information relating to action taken or about to be taken in connection with the prevention, investigation or prosecution of crime under paragraphs 1 and 7 of part 1 of Schedule 12A of the Local Government Act 1972.

124 Irregularity Report

Discussion:

This report and supporting exempt appendix set out details of two irregularity investigations and explained the actions taken to deal with the situation.

Decision:

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

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Chairman

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