

Medway Council
Meeting of Audit Committee
Tuesday, 28 September 2010
7.00pm to 8.40pm

Record of the meeting

Present:	Councillors: Clarke (Chairman), Griffiths, Jarrett and Juby
Substitutes:	Councillors: Kenneth Bamber (Substitute for Andrews)
In Attendance:	Kerry Barnes, PKF (Council's External Auditor), Peter Bown, Accounting Manager Rose Collinson, Director of Children and Adults Stuart Frith, PKF (Council's External Auditor), Robert Grant, PKF (Council's External Auditor) Mick Hayward, Chief Finance Officer Richard Humphrey, Audit Services Manager Anthony Law, Cabinet Coordinator Deborah Upton, Assistant Director, Housing and Corporate Services/Monitoring Officer

375 Record of Meeting

The record of the meeting held on 30 June 2010 was agreed and signed by the Chairman as correct.

376 Apologies for absence

An apology was received from Councillor Andrews.

377 Urgent matters by reason of special circumstances

It was reported that the Chairman had agreed to accept the following reports as urgent:

- agenda item 5 (2009/2010 External Audit report), as the Accounts and Audit Regulations 2003 (as amended) required that the report was considered before 30 September.
- agenda item 6 (Woodlands School Extension), so to ensure that Members were advised and could act upon the latest control information.
- agenda item 7 (Revision to Contract Procedure Rules), so to ensure the report can be considered at Full Council on 14 October 2010.

It was also noted that addendum reports for agenda items 6 (Woodlands School Extension) and 7 (Revision to Contract Procedure Rules) had been tabled, together with a flowchart setting out the proposed new procurement process.

The Committee agreed to vary the order of business so that the item concerning Woodlands School Extension was considered first.

378 Declarations of interest

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

Councillor Clarke declared a personal interest in any references to schools, as his wife is an employee at St Mary's Island Primary School.

379 Woodlands School Extension

The Monitoring Officer and Chief Finance Officer submitted a report and an accompanying addendum report that identified potential procurement and other issues that had arisen from works carried out at Woodlands Primary School, Gillingham.

The Monitoring Officer detailed the contents of the report, advising the Committee that the report specifically addressed the Council's control mechanisms; as other matters were the subject of ongoing disciplinary investigations. Officers advised Members as to the background to this project, which included details of:

- how and when the scheme had been included within the capital programme (budget allocation authorisation) and the absence of a written record of the reason for the decision to approve costs and a formal proposal
- how budget monitoring had failed to identify any potential problems arising with the project until the request for further funding at the end of September 2009
- project management, specifically the absence of a proper project plan and cost plan and the lack of clarity as to who was managing the project
- the procurement for the building works. That the project had not followed the Council's usual procurement processes, which would have provided an opportunity for scrutiny and challenge at an early stage as it involved Members and senior officers.
- the lessons learnt and the view of the Monitoring Office and Chief Finance Officer that it was not proposed to make any changes as a consequence of this project to the Council's own procurement process, as that contained all necessary control mechanisms. Noting that this project had not been subjected to the proper procurement process.

The Committee was also informed that Cabinet had considered a report earlier on 28 September 2010 setting out a range of options for delivering the additional works needed. Cabinet had agreed 'Option D', as detailed within the Cabinet report.

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Members questioned the contents of the report and sought clarity as to the admission arrangements at the school. They were advised that the school had 1.5 forms of entry (FE) when the works started. The school had already admitted 2 forms of entry and it was noted that funding had been allocated for phase 1. Additional sources of funding would need to be sought for phase 2 and added to the capital programme to enable the school, in line with the decision by Cabinet in 2008, to continue with 2 FE rather than 1.5 FE throughout the school.

The Chief Finance Officer explained to Members in detail the stages contained within the project approval process for all Children and Adults Capital projects, which had been set out within the addendum report tabled at the meeting and agreed by Cabinet earlier on 28 September 2010. This included the requirement for outline business cases for each project, which for projects with a value in excess of £500,000 would require approval by Cabinet. He noted that the process would ensure greater scrutiny of projects and addressed the failings identified by the Woodlands Primary School building project.

The Committee critically considered the Council's control mechanisms and expressed their concern as to the failings identified.

Members discussed the strengths of the Council's procurement process and sought assurances as to the ability of the agreed approval process to safeguard against a reoccurrence, as it was not known how this project had been able to operate outside of the Council's procurement procedures. The Committee was advised that such issues would be investigated as part of the current disciplinary investigations and the Monitoring Officer agreed to report back to the next meeting of the Committee on any specific lessons learnt.

In relation to the capital budget monitoring process Members were concerned that this had reported that the project had been proceeding satisfactorily until September 2009 rather than identifying problems. The Chief Finance Officer confirmed that officers had reviewed the other schemes within the programme and that the new approval process would ensure that no major scheme was able to bypass control processes. Members were also informed of officers' intention to present the 2011-2012 capital programme in greater detail to aid transparency; specifying wherever possible specific projects and providing an analysis of how the programme would be funded. The role of the Education Programme Board, which considered progress on all school projects on a six weekly basis, was also explained and the Committee was advised that there was only one other project, using Council funding, being managed directly by a school. This was being closely monitored by officers and was on track in terms of time, cost and agreed specification. The Committee requested that the report to next meeting provides assurances as to the certainty of the capital budget monitoring controls across the Council to safeguard against this occurring again.

Members were informed that the use of the Section 106 Contribution for Grange Farm to fund this work was within the terms of the Section 106 Agreement and advised of the rationale for retaining a 2 form of entry at this

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school. Members also questioned the role of school governors but were informed that this was not within the remit of this report.

Decision:

- (a) The Audit Committee noted that Cabinet had agreed the proposed project approval process outlined in the addendum report.
- (b) The Audit Committee agreed that a further report be submitted to the next meeting of the Committee addressing the concerns expressed by Members as to project management and budget monitoring controls, together with any further lessons learnt concerning control issues arising from the ongoing disciplinary investigations.

380 2009/2010 External Audit Report

Discussion:

This report presented the external auditor's report for 2009/2010 and adjusted financial statements, reflecting the issues raised, were attached. A draft management representations letter was attached to the auditor's report.

Robert Grant, from the Council's external auditors (PKF), provided an overview of the external auditor's report. It was noted that the key financial systems were deemed to be adequate, although some control weaknesses had been identified; such as the delayed implementation of the new financial system for recording some Social Services income and expenditure (Care Director).

The Committee was advised of the material amendments made to the accounts. This included the removal of 3 schools from the fixed asset register and accounts, adjustments to the Revaluation Reserve and Capital Adjustment Account to take account of accumulated depreciation. It was noted, however, that none of the amendments affected the overall surplus reported or the level of the general fund balance.

Members were advised that it was anticipated, as some minor work on the accounts was ongoing, that an unqualified audit opinion would be issued on the statement of accounts by 30 September 2010.

Robert Grant informed the Committee that whilst the Comprehensive Area Assessment had been abolished, which had consequently changed the Audit Commissions use of resources approach, auditors were still required to complete sufficient use of resources assessment work to inform their value for money conclusion. Details of the findings from the auditor's use of resources review were given and it was reported that the auditor's overall conclusion was that adequate arrangements were in place to secure value for money.

Members sought clarity on the pensions reserve and commented on the removal of the use of resources assessment.

Decision:

- (a) The Audit Committee noted the issues raised and judgements made by PKF, as presented in Appendix 1 to the report, and the proposed response as set out at Appendix A to the PKF report and summarised in the body of the report.
- (b) The Audit Committee noted the change to asset valuation policy outlined in paragraph 4.3.6 of the report.
- (c) The Audit Committee agreed the changes to the Statement of Accounts as set in paragraph 4.3 of the report and reflected in the amended sections of the Statement of Accounts set out at Appendix 2 of the report.
- (d) The Audit Committee noted the uncorrected misstatements outlined in Appendix B of the PKF report.
- (e) The Audit Committee agreed the Management Representations Letter, attached at Appendix C of the PKF report.

381 Revision to Contract Procedure Rules

Discussion:

The Monitoring Officer introduced a report setting out proposed changes to the Council's Procedure Rules and the Council's procurement framework. These were designed to ensure that the processes were more streamlined, whilst remaining robust.

It was noted that the proposed process would operate as a risk and value based Procurement Gateway Process and the report gave details of the main changes between the existing and proposed rules. This included revisions to procurement categorisation, the replacement of the risk analysis tool, deletion of the Officer Scrutiny Panel and provisions for the approval of exemptions.

As the revised contract procedure rules would form part of the Constitution, they had been considered and supported by Cabinet earlier on 28 September and would be presented to full Council on 14 October 2010 for approval. It was intended that the new procedure would take effect from 1 January 2011, to ensure that training can be given to all staff in the period October – December.

An addendum report and flow chart was tabled at the meeting. The addendum report gave details of a number of alterations to the proposed contract procedures. This included clarification of officer delegations and the advisory role of the Strategic Procurement Board (SPB).

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The Chairman advised the Monitoring Officer that some drafting inconsistencies and typographical errors would need to be corrected when the rules are finalised.

Decision:

- (a) The Audit Committee recommended that full Council adopt the Contract Rules as set out in the appendix attached to the report subject to the amendments set out within the addendum report tabled at the meeting.
- (b) The Audit Committee recommended that full Council agrees to authorise the Monitoring Officer, in consultation with the Leader, to make consequential changes to the Constitution to reflect the new contract procedure rules noting that the Leader will be requested to agree appropriate executive delegations.

382 Whistleblowing Report

Discussion:

The Monitoring Officer introduced the report that advised Members of nine concerns raised under the Whistleblowing Policy between April 2009 and April 2010.

It was noted that the requirement to report to the Audit Committee on the number and nature of concerns raised was set out within the Council's Anti-Fraud and Corruption Policy and the Whistleblowing Policy, both of which were set out within the Council Constitution.

Decision:

The Audit Committee noted the report.

383 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 30 June 2010 and responded to Members' questions.

It was noted that since the last report to the Committee there had been 12 successful and three unsuccessful prosecutions. Two cautions and two administrative penalties had also been issued. Details of these cases were set out in an appendix to the report.

Members were also advised that in the financial year up to 30 June 2010 the investigations team had identified £114,977 of fraudulent overpayments of

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Housing and Council Tax Benefit and £29,151 of Department for Work and Pensions paid benefits.

In response to questions the Audit Services Manager advised that allegations of benefit fraud could be reported through a number of channels. This included a widely advertised confidential hot line, via Customer First, and referrals from the Medway Revenue and Benefits Service and the Department for Work and Pensions.

Decision:

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

384 Internal Audit Work Programme

Discussion:

Members were given a brief overview of the 2010/2011 internal audit work programme. The approved programme and progress to date was set out in Annex A to the report, with items removed from this year's programme shown in Annex B.

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 of risk and requests from Members and officers.

In response to questions and comments from Members the Audit Services Manager advised that the audits of the 'Care Director' system would consider if the system was 'fit for purpose' and the SEN audit would make use of the work being completed by an SEN Monitoring Group established by the Children and Adults Overview and Scrutiny Committee.

Decision:

The Audit Committee noted the progress in delivering the 2010/11 programme and that all key assurance work will be completed to support the needs of the annual governance statement and external audit.

385 Outcomes of Audit Activity

Discussion:

The Audit Services Manager gave a brief introduction on the outcome of completed internal audit activity.

It was noted that the outcome of two completed internal audits were reported within an exempt appendix.

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Decision:

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

Chairman

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