

Medway Council
Meeting of Audit Committee
Tuesday, 21 December 2010
7.00pm to 9.15pm

Record of the meeting

Subject to approval as an accurate record at the next meeting of this committee

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

In Attendance: Peter Bown, Accounting Manager
Rose Collinson, Director of Children and Adults
Robert Grant, PKF (Council's External Auditor),
Mick Hayward, Chief Finance Officer
Anthony Law, Cabinet Coordinator
Gary Lindsey, Transport Procurement Unit Manager
Graham Matthews, Principal Auditor

649 Record of meeting

The record of the meeting held on 28 September 2010 was agreed and signed by the Chairman as correct.

650 Apologies for absence

There were none.

651 Urgent matters by reason of special circumstances

The Chairman advised Members that there were no urgent matters for consideration at this meeting. He noted that a report had been expected following the Committee's consideration of the Woodlands School Extension report on 28 September 2010. However, with the disciplinary investigations still ongoing this report would be submitted to the next meeting of the Committee. It was requested that officers discuss with Members the arrangements for this meeting, to ensure that the findings could be fully explored.

652 Declarations of interest

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

Councillor Griffiths declared a personal interest in any reference to schools, because his wife is an employee at Danecourt School and any reference to NHS Medway and Medway Community Healthcare as he is a non-executive director of both Trusts.

653 Annual Audit Letter 2009/2010

Discussion:

This report and appendix gave details of the work carried out by the Council's external auditor (PKF) in the 2009/2010 financial year in relation to their responsibilities on both finance and governance matters. It was noted that the Cabinet had considered this report earlier on 21 December 2010 and recommended it to the Audit Committee for acceptance.

It was reported that in previous years the letter would have reflected the results of the Use of Resources component of the Performance Assessment; whilst this had now ceased to exist most of the work had been concluded and was able to be used in forming the Value for Money conclusion.

Robert Grant (PKF) summarised the key issues, including the treatment of fixed assets within the accounts; the underspend in 2009/2010 and subsequent increase in the level of the general fund balance; progress in delivering against priorities as measured by performance indicators; and the Council's response to the economic downturn.

In relation to the key findings, Members were advised that this included an unqualified opinion of the 2009/2010 Statement of Accounts and an unqualified value for money conclusion. Confirmation was also given that the Council had made good progress in implementing the improvement plan prepared following the use of resources review in 2009, such as improved financial management arrangements, the successful implementation of a new performance management system and the innovative ways the Council had found to work with partners. Members congratulated officers for achieving the unqualified opinions.

The Committee discussed the contents of the Annual Audit Letter. Members considered and questioned how the auditor reached and presented their judgements, in particular the balance of opinion contained within the executive summary. They also discussed the impact of the provisional Local Government Settlement on the figures set out within the letter.

In relation to suggestions as to the treatment of Members' allowances within the Council's financial statements, the Committee discussed the existing availability of this information and the Chief Finance Officer undertook to include within future accounts a link to this information on the Council's website.

Decision:

- (a) The Audit Committee accepted the Annual Audit Letter for 2009/2010.
- (b) The Audit Committee requested that the Chief Finance Officer include, within future accounts, a link to Members' Allowances information on the Council's website.

654 International Financial Reporting Standards - Update

Discussion:

This report advised Members of progress that had been made to comply with the requirements of the new International Financial Reporting Standards (IFRS). It was noted that all councils' accounts were currently prepared using UK Generally Accepted Accounting Practice but that this was converging with IFRS.

The Accounting Manager informed the Committee of the impact of IFRS on the Council's financial statements and that, as a consequence, the accounts for 2009/2010 would need to be restated. The Committee was also informed that, from 1 April 2010, the external auditors had agreed to the Council undertaking future component valuations only for those assets deemed to include a material element of plant or specialised equipment, such as Gun Wharf, swimming pools and the crematorium. It was also reported that by 2012/2013 new requirements relating to the classification, valuation and life cycle of transport infrastructure assets must be implemented which would impact on the Council's financial statements.

Members were advised that IFRS requires that, if material, the value of vehicles and plant utilised by contractors in service delivery be recorded within the Council's balance sheet, depreciation be calculated and all other accounting entries be made in the accounts as if the vehicles belonged to the Council. Members discussed the implications and complexities associated with incorporating 'embedded leases' within the financial statements and questioned the benefits of these requirements.

It was noted that work was being undertaken to introduce a system designed to assist in obtaining the relevant information and officers were working to identify areas where embedded leases may arise. In response to Members concerns with the implementation of these requirements, Robert Grant (PKF) advised that the auditors would be working closely with officers and would be as pragmatic as possible.

The Committee considered the proposal that the "de minimis" level for capital expenditure (the figure above which items would be treated as capital and recorded in the balance sheet together with associated accounting transactions) be increased from £10,000 to £25,000. Members discussed this in detail and expressed concern as to the potential disaggregation of assets so to avoid the requirements of the Council's capital approval process. Whilst not supportive of this increase in terms of how the Capital Programme is developed and agreed, Members did support this approach in relation to the preparation of the Statement of Accounts. Following this discussion the Chief Finance Officer undertook to provide Members with an update, incorporating the auditor's views following their consideration of the restated financial statements in February 2011, to the next meeting of the Committee.

Audit Committee, 21 December 2010

Decisions:

- (a) The Audit Committee noted the progress to date in implementing International Financial Reporting Standards as outlined in Section 3 of the report.
- (b) The Audit Committee agreed to an increase in the de minimis level in relation to accounting policies for the production of the Statement of Accounts for capital expenditure to £25,000.
- (c) The Audit Committee requested that the Chief Finance Officer report back to the next meeting of the Committee following the audit of the restated financial statements, including reference to the increase in the de minimis level.

655 Internal Audit Work Programme

Discussion:

Members were given a brief overview of the 2010/2011 internal audit work programme.

The report identified 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, requests from Members and officers, and discussions with the external auditor. The work programme and progress to date was set out at Annex A to the report, with Annex B setting out items that had been removed. Members were advised that the aim was for all of the key assurance audits to be completed to meet the needs of the governance statement and external audit.

In response to questions, the Principal Auditor advised Members that items removed from the 2010/2011 work programme would be reconsidered for inclusion in the 2011/2012 work programme following an assessment of risk. However, given that they had been removed to accommodate audits requested by Members or the Chief Finance Officer since setting the programme, it was likely that they would be included. Members expressed a particular preference that the Blue Badges audit be included in the 2011/2012 internal audit work programme.

In relation to the Online Procurement for Educational Needs (OPEN) audit, reported in Annex B to the report, it was clarified that the first schools to use OPEN in Medway had implemented the system early in the 2010/2011 financial year.

During the discussion on this item, the Committee requested that the scope of the Civic Centre Fuel Issues audit be extended to include all sources of fuel, with the scope reported back to Members if there are adverse implications for the timing/completion of the audit.

Audit Committee, 21 December 2010

In response to questions concerning the Council Tax audit, the Chief Finance Officer agreed to provide a briefing note to the Members of the Audit Committee and Business Support Overview and Scrutiny Committee with details of the council tax collection rate.

Decision:

- (a) The Audit Committee noted the progress in delivering the 2010/11 programme and that all key assurance work would be completed to support the needs of the annual governance statement and external audit.
- (b) The Audit Committee requested that the scope of the Civic Centre Fuel Issues audit be extended to include all sources of fuel, with the scope reported back to Members if there are adverse implications for the timing/completion of the audit.
- (c) The Audit Committee requested that the Chief Finance Officer provide a briefing note to the Members of the Audit Committee and Business Support Overview and Scrutiny Committee with details of the council tax collection rate.

656 Outcomes of Audit Activity

Discussion:

The Principal Auditor introduced this report on the outcome of completed internal audit activity.

It was reported that the audit definitions had been set so to improve managers' understanding of them and that the audit report format was designed so to direct managers more clearly to the key risk areas. A clearer priority ranking system for audit recommendations had also been introduced.

Officers responded to Members' questions on a number of audits. This included, for the Direct Debit Income audit, advising that the practice in Adult Social Care of not sending direct debit mandates to the bank until the first invoice had been received was historical and that rather than being a training issue officers had been instructed to ensure they are submitted promptly. In relation to the Leisure Memberships audit it was suggested that the public be made aware that all cash refunds over £10 would need management authorisation. The Director of Children and Adults explained the background as to the delayed implementation, arising from changes in senior management, of recommendations arising from the Parkland Resource Centre Unit audit.

To facilitate discussion the Committee agreed to move the exclusion of press and public for part of the consideration of this report, so to allow Members to comment on the exempt appendix accompanying agenda item 10 (Irregularity Report). In relation to this exempt appendix the Chief Finance Officer undertook to provide Members with a briefing note setting out further background to this matter.

Audit Committee, 21 December 2010

The Transport Procurement Unit Manager tabled information in relation to the Transport Procurement audit. This set out the background to the Transport Procurement Unit, the work streams and a statistical overview; including details of the number of contracts currently running, the value of savings achieved through re-tendering and re-planning of routes on SEN transport contracts and the contracts inspection rate. In response to Members' questions and concerns, the Transport Procurement Unit Manager acknowledged and welcomed the recommendations arising from the audit and gave details as to:

- the overpayment to a taxi company of approximately £30,000 which had lead to the audit
- the background and basis as to why the unit scored tenders using the ratio 65:35 (quality to price), in addition to the quality assessment as part of the Local Transport Framework. This had been designed as a pragmatic response to lesson learnt from earlier contract delivery
- details of the existing Local Transport Framework, that would end in September 2011, and the steps that would be taken to review the options for the continued provision of these service contracts such as the potential of extending the term of contracts
- the terms and conditions contained within new contracts, which would include 10 separate criteria for assessing quality
- the relationship with the Children and Adults Directorate in specifying and providing quality-assessed transport, which included discussions as to achieving efficiencies whilst safeguarding the needs of vulnerable individuals
- the monitoring/inspection regime for vehicles, passengers and routes and examples of action taken by the unit in response to poor performance.

The Director of Children and Adults also advised Members as to the changing context for the delivery of SEN services, including the increased use of personalised budgets.

In addition to checking lists of passengers and routes with the operator Members suggested that these lists also be checked with schools. Members also stressed the importance of high quality staff in the provision of services to vulnerable individuals and the Transport Procurement Unit Manager advised that, in addition to the 65:35 quality to price ratio, since 2008 all drivers and escorts were required to attend training provided by the Community Transport Association. Members were advised that follow up audit work would be undertaken within six months.

In relation to the Security of Confidential Records at Children and Adults Sites audit the Director of Children and Adults advised Members that the audit had sought assurances that handling confidential data was appropriate and consistent across all sites, that an archiving project was taking place at the time of the audit and that the importance of securing confidential data had been restated to staff. The Director undertook to advise the Committee as to the length of time that records were retained. Members were of the opinion that the findings of this review should be shared with relevant task groups of the Health and Adult Social Care and Children and Young People Overview and Scrutiny Committees.

Audit Committee, 21 December 2010

Decision:

- (a) The Audit Committee agreed to exclude the press and public for the consideration of the appendix accompanying item 10 (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.
- (b) The Audit Committee noted the outcome of Internal Audit's work.
- (c) The Audit Committee agreed to refer the findings of the audit on the Security of Confidential Records at Children and Adults Sites to the Safeguarding Vulnerable Adults Task Group and the Child Protection Monitoring Group.
- (d) The Audit Committee requested that the Chief Finance Officer provide Members with a briefing note setting out further background information on the investigation set out in the exempt appendix accompanying agenda item 10 (Irregularity Report).

657 Outcomes of Housing Benefit Counter Fraud Investigations

Discussion:

The Principal Auditor advised Members of progress in investigating allegations of Housing and Council Tax Benefit fraud during the quarter ending 30 September 2010. He highlighted a number of cases and the joint work undertaken with the UK Border Agency and Department for Work and Pensions (DWP) Hidden Economy Team. It was also noted whilst DWP had decided not to prosecute a partner in respect of case 111222, Medway Council had taken this forward and had been successful.

In the quarter to 30 September there had been 7 successful prosecutions. Two cautions and 3 administrative penalties had also been issued. Details of these cases were set out in an appendix to the report. It was reported that in the 2010/2011 financial year the investigations team had identified £204,526 of fraudulent overpayments of Housing and Council Tax Benefit and £109,084 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.

658 Irregularity Report

Discussion:

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

It was noted that whilst considering agenda item 8 (Outcome of Audit Activity) the Chief Finance Officer had agreed to provide Members with a briefing note setting out further background to this matter.

Decision:

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

Chairman

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