

**Medway Council**  
**Meeting of Audit Committee**  
**Tuesday, 29 March 2011**  
**7.00pm to 9.06pm**

**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  
Geraldine Daly, PKF (Council's External Auditor)  
Robert Grant, PKF (Council's External Auditor)  
Mick Hayward, Chief Finance Officer  
Richard Humphrey, Audit Services Manager  
Anthony Law, Democratic Services Officer  
Deborah Upton, Assistant Director, Housing and Corporate Services/Monitoring Officer

**915 Record of meeting**

The record of the meeting held on 21 December 2010 was agreed and signed by the Chairman as correct.

**916 Apologies for absence**

There were none.

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

The Chairman advised Members that there were no urgent matters for consideration at this meeting.

The Chairman announced that Richard Humphrey, Audit Services Manager, was retiring and on behalf of the Committee recorded their appreciation of his work for the authority and wished him well for the future.

It was also 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 it was expected that this report would be submitted to the next meeting of the Committee. The Assistant Director, Housing and Corporate Services undertook to notify the Committee when the process had concluded.

**918 Declarations of interest**

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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.

### **919 Annual Audit Plan 2010/2011**

#### **Discussion:**

This report presented the external audit plan for 2010/2011. This set out the work PKF, the Council's external auditor, proposed to undertake in respect of the audit of the accounts and the review of the council's arrangements for securing value for money for the 2010/2011 financial year. This was a requirement of the International Standards on Auditing (UK and Ireland) 260.

It was noted that PKF had drawn up the detailed plan in accordance with their risk-based approach to audit planning and planning meetings held. They would also target work to where it would have the greatest impact based upon assessments of risk and performance.

Robert Grant (PKF) provided an overview of the annual audit plan. He advised and detailed the key accounts risks that could impact on the audit, which were:

- the risk of management override of controls,
- the implementation of International Financial Reporting Standards and
- weaknesses in the maintenance of the fixed asset register.

He also informed Members about the emerging issues that could impact on the audit, such as the outcome of the Government's Comprehensive Spending Review and the 2011/2012 grant settlement for Medway. Other significant issues, such as evidencing that value for money is secured from strategic procurement decisions and the abolition of primary care trusts in 2013, were noted. Details of these risk areas were set out in the auditor's report.

The auditor concluded by referring to the key outputs for 2010/2011, such as the Annual Audit Letter, and the audit fees.

Responding to Members' questions the Committee was informed that the Value for Money conclusion would include comments on the five actions specified to improve the pace of improvement in services and towards published performance targets for the year. Members were also advised that new academies would not appear on the council's balance sheet.

#### **Decision:**

The Audit Committee accepted the proposed annual audit plan for 2010/2011.

### **920 External Audit's Grant Claim Report**

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### **Discussion:**

This report and attached letter set out details of the work carried out by the council's external auditors, in respect of the certification of grant claims for the financial year ending 31 March 2010.

It was noted that PKF undertook this work on behalf of the Audit Commission and that government departments relied on the certification work to ensure grant claims and other returns were fairly stated and that expenditure incurred by local authorities was in accordance with the terms and conditions agreed.

Robert Grant (PKF) provided an overview of the work undertaken and the main findings. Members were advised that, as in previous years, the Council's arrangements for preparing grant claims and other returns were variable. The council had also implemented some of the recommendations arising from the 2009 audit, although the application of management review procedures was inconsistent.

It was noted that in Medway the value of claims and other returns certified in 2009/2010 amounted to over £200million and therefore the monetary value of amendments was relatively small. Members were informed that two claims had however received a qualified opinion: the Housing and Council Tax Benefit Subsidy claim and the Housing Revenue Account base data return for 2011/2012. Details of these two claims, together with information concerning the Teacher's Pension Return and other amendments made to correct errors were set out.

In response to Members' questions the Chief Finance Officer explained the council's policy for awarding single person's discounts. Details were also given as to how the error within the teachers' pension (annual) return had occurred and clarification was given that academies would be responsible for their own return.

An action plan accompanied the report, which included the external auditors recommendations for improvement and management's response. The auditor's had also recommended that the Committee receives a further report detailing progress made on the recommendations prior to the commencement of the audit of 2010/2011 returns.

### **Decision:**

The Audit Committee accepted the external auditor's grant audit report for 2009/2010 and agreed that a further report be submitted to the next meeting of the Audit Committee, detailing progress made in response to the recommendations made.

## **921 International Financial Reporting Standards Update**

### **Discussion:**

## **Audit Committee, 29 March 2011**

This report advised Members of progress that had been made to comply with the requirements of the new International Financial Reporting Standards (IFRS) since the last meeting. This included an update following the increase in the 'de minimis' level (the figure above which items would be treated as capital and recorded in the balance sheet together with associated accounting transactions) for IFRS capital accounting purposes.

The Accounting Manager advised Members that the following 2009/2010 restated financial statements were currently being reviewed by the external auditors to ensure compliance with IFRS:

- Comprehensive Income and Expenditure Account,
- Movement in reserves Statement,
- Balance Sheet and
- Cash Flow Statement.

Members were informed that the external auditors would not give a formal opinion on the 2009/2010 statements. The restated figures, together with a commentary on major changes as a result of the introduction of IFRS would be incorporated within the audited 2010/2011 accounts. The reviewed financial statements would therefore form the basis of the IFRS compliant Statement of Accounts for 2010/2011 and future years.

A revised set of draft Accounting Policies were also attached to the report. The Accounting Manager explained that it had been necessary to review and update the Council's accounting policies, as part of the transition to IFRS. These would be presented to Members as part of the Statements of Accounts in June and may be subject to further review during the preparation of the 2010/2011 accounts.

Geraldine Daly (PKF) updated Members on the issues listed as outstanding in the report. It was noted that the reviews of 'componentisation' of non-current assets and the treatment of capital grants and contributions had been completed. The reclassification and valuation of some fixed (now non-current) assets was largely completed and further information was outstanding regarding the treatment of 'embedded leases'. It was anticipated that the restatement of the statements would be completed within the next few weeks.

A copy of a recent Audit Commission briefing paper reviewing the implementation of IFRS in local authorities was attached to the report. This set out details of a survey completed in January 2011 by auditors of all councils, fire and rescue authorities, and police authorities, on local government's progress on transition to IFRS. Members were informed that the survey showed that other authorities had identified similar reporting issues.

Members expressed concern as to the benefits of implementing IFRS and discussed with officers and the auditors the application of these rules; in particular the treatment of infrastructure assets such as roads and depreciation. Geraldine Daly (PKF) advised that the auditors would be working to provide a consistent approach amongst its clients and would be as pragmatic as possible.

### **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 the draft Accounting Policies as set out in Appendix B to the report.

## **922 Outcomes of Counter Fraud Investigations**

### **Discussion:**

The Audit Services Manager advised Members of progress in investigating allegations of Housing and Council Tax Benefit fraud and other non benefit fraud during the quarter ending 31 December 2010 and responded to Members' questions. He highlighted a number of cases, in particular those relating to investigations into applications made under the Right to Buy scheme.

It was noted that since the last report to the Committee there had been 9 successful and 3 unsuccessful prosecutions. 5 cautions and 2 administrative penalties had also been issued. Members were also advised of 3 successful prosecution for non benefit cases. Details of these cases were set out in an appendix to the report.

Members were also advised that in the 2010/2011 financial year the investigations team had identified £319,281 of fraudulent overpayments of Housing and Council Tax Benefit and £133,386 of Department for Work and Pensions paid benefits. The Audit Committee requested that future reports on the outcome of counter fraud investigations set out the length of time it would take for overpayments to be recovered from current benefit claims.

During the discussion of this item the Chief Finance Officer undertook to inform Members over how many years the fraud, detailed in case number 10389, had taken place and, following discussion of case number 10984, agreed to consider and report back to Members on means to trace a claimant who may subsequently return to the Medway area.

The Assistant Director, Housing and Corporate Services advised Members that, in relation to the Right to Buy applications listed in Annex A, action would be considered and taken against those living incorrectly at the property and also in relation to any breach of contract by the tenant. The outcome of this would be reported back to the Committee.

### **Decision:**

- (a) The Audit Committee noted progress in investigating benefit fraud in accordance with the approved sanction policy.
- (b) The Audit Committee requested that the Chief Finance Officer inform Members over how many years the fraud, detailed in case number

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10389, had taken place and, following discussion of case number 10984, consider and report back to Members on means to trace a claimant who may subsequently return to the area.

- (c) The Audit Committee noted that the Assistant Director, Housing and Corporate Services, in relation to the Right to Buy applications listed in Annex A to the report, would consider and take action against those living incorrectly at the property and also in relation to any breach of contract by the tenant. The outcome of this would be reported back to the Committee.
- (d) The Audit Committee requested that future reports on the outcome of counter fraud investigations set out the length of time it would take for overpayments to be recovered from current benefit claims.

### **923 Internal Audit Work Programme**

#### **Discussion:**

This report provided an overview of the 2010/2011 internal audit 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 of risk, requests from Members and officers and predetermined audits that form part of agreed arrangements with the external auditor.

Members discussed the content of the 2010/2011 programme, the items removed from the programme set out in Annex B to the report and the need to cross reference to the council's corporate risk register. The Committee considered and requested that future reports include an assessment of the risk involved in removing items from the work programme.

#### **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 the future Internal Audit Work Programme reports include an assessment of the risk involved in removing items from the programme.

### **924 Outcomes of Audit Activity**

#### **Discussion:**

The Chief Finance Officer and Audit Services Manager introduced this report on the outcome of completed internal audit activity. The schedule of completed

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audit work attached to the report provided details of the main findings and risks, the main recommendations arising from the audit and the management response.

Officers responded to Members' questions on a number of audits.

In relation to the Tenancy Fraud audit Members questioned the policy on succession rights (where a tenancy is passed on when a tenant dies) and also tenants rights to sublet. The Assistant Director, Housing and Corporate Services undertook to review the council's existing policy on residents' succession rights to ensure clarity on these rights. She also agreed to provide Members of the Committee with a briefing note on the council's position relating to the subletting of council property.

The Committee discussed the Concessionary Fares audit and requested details on whether the reported balance of overpayments to two operators could still be recovered; noting that management had accepted consideration of this point.

In relation to the audit of financial controls at Halling Primary School the report noted that management of individual schools budgets was delegated to schools' governing bodies however Medway's Chief Finance Officer (CFO) retained a statutory duty to ensure the adequacy of financial control over this delegated funding. The role of the financial control self-assessment in providing the CFO with assurances on the effectiveness of financial controls was discussed and the Committee requested a briefing note clarifying the control the council has over school budgets, including details of any consequences of their failing for the council. The Committee also requested that the lessons learnt from this and other audits be shared with the Schools Forum, with the forum being asked to consider improvements in the financial management and financial training within schools.

Responding to a Member request the Chief Finance Officer agreed to provide Members with further information as to the occurrences where the authority had claimed too much VAT.

In relation to the Housing Rents audit Members questioned the completion date for the review of Academy access rights and the Assistant Director, Housing and Corporate Services undertook to review and advise Members as to date, which was currently scheduled for completion in March 2012.

### **Decision:**

- (a) The Audit Committee noted the outcome of Internal Audit's work.
- (b) The Audit Committee requested further information on
  - i. the council's position relating to the subletting of council property.



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- ii. details on whether the reported balance of overpayments to two operators within the Concessionary Fares audit could still be recovered
  - iii. the control the council has over school budgets, including details of any consequences of their failing for the council
  - iv. the occurrences where the authority had claimed too much VAT.
  - v. The scheduled completion date of the review of Academy access rights.
- (c) The Audit Committee requested that the Chief Finance Officer share the lessons learnt from the Halling Primary School audit, and other audits, with the Schools Forum and the Forum be requested to consider improvements in the financial management and financial training within schools.

### **925 Exclusion of the Press and Public**

#### **Decision:**

The Audit Committee agreed to exclude the press and public for the consideration of the appendices accompanying item 11 (Irregularity Report) as they 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.

### **926 Irregularity Report**

#### **Discussion:**

This report and supporting exempt appendix set out details of four irregularity investigations. These related to the actioning of false bank change details and three instances of employee fraud.

Members discussed the investigations in detail and officers responded to Members' questions, which included an explanation of the actions taken to deal with the situation.

The Committee considered the courses of action available to the Council when an employee commits a crime and the role of the Crown Prosecution Service. Members requested that the Corporate Management Team be advised of this committee's view that other courses of action, such as dismissal, should be considered in these circumstances instead of the acceptance of a resignation. The Council should also take the most robust course of action available to them in the prosecution of a crime.

Members emphasised the need for lessons to be learnt from these investigations and the need for consideration to be given as to the publication of these matters.



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In relation to the investigation into a fraudulent payment of £256,101 to an incorrect bank account the Chief Finance Officer undertook to provide Members with copies of the procedures put in place to safeguard against this reoccurring.

### **Decision:**

- (a) The Audit Committee noted the outcome of the irregularity investigations and the actions taken.
- (b) The Audit Committee requested that the Chief Finance Officer advise the council's Corporate Management Team of this committee's views that:
  - i. In future instances where any employee has admitted a crime that other courses of action, such as dismissal, should be considered in these circumstances instead of the acceptance of a resignation.
  - ii. The Council should take the most robust course of action available to them in the prosecution of a crime.

**Chairman**

**Date:**

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