

**Medway Council**  
**Meeting of Audit Committee**  
**Thursday, 24 November 2011**  
**7.00pm to 11.15pm**

**Record of the meeting**

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

**Present:** Councillors: Clarke (Chairman), Griffiths, Jarrett, Mackness and Maple

**In Attendance:** Kerry Barnes, PKF (Council's External Auditor)  
Odette Collard-Woolmer, Principal Accountant  
Rose Collinson, Director of Children and Adults  
Geraldine Daly, PKF (Council's External Auditor)  
Robert Grant, PKF (Council's External Auditor)  
Mick Hayward, Chief Finance Officer  
Andy Larkin, Finance Support Manager  
Anthony Law, Democratic Services Officer  
Graham Matthews, Principal Auditor  
Alison Russell, Audit Services Manager  
Deborah Upton, Assistant Director, Housing and Corporate Services/Monitoring Officer

**524 Record of meeting**

The record of the meeting held on 5 July 2011 was agreed and signed by the Chairman as a correct record.

The Chief Finance Officer advised Members that the former employee referenced in minute 154(b) had received a 14-month custodial sentence.

**525 Apologies for absence**

There were none.

**526 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 (Annual Audit Letter 2010/2011).  
The Audit Commission's Code of Audit Practice required auditors to prepare an annual audit letter and issue it to each audited body. The Letter summarised the key issues arising from the work undertaken during the year and it was important that Members were advised of these at the

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earliest opportunity. It was also important that this report was considered alongside the external auditor's report on the 2010/2011 Statement of Accounts and Annual Governance Report.

- agenda item 6 (2010/2011 External Audit Report).  
The Accounts and Audit Regulations 2003 (as amended) require that the Committee consider a report on the outcome of the external audit by 30 September. As this had not been possible it was critical that the external auditor's report on the 2010/2011 Statement of Accounts and Annual Governance Report were presented to Members at the earliest opportunity.

A replacement copy of the Statement of Accounts, reflecting amendments made following discussion with the External Auditor, was tabled at the meeting.

The Chairman also agreed to vary the order of business so that the External Audit Report (item 6) was considered before the Annual Audit Letter (item 5). Agenda items 10 (Whistleblowing Report) and 11 (Bribery Act 2010) were also brought forward.

### **527 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 Medway Community Healthcare as he is a non-executive director of that Community Interest Company.

### **528 2010/2011 External Audit Report**

#### **Discussion:**

This report considered the issues raised by PKF, the Council's external auditors, during the 2010/2011 audit of the Statement of Accounts.

The Chief Finance Officer advised Members that after the presentation of the draft Statement of Accounts for 2010/2011 to the Audit Committee in July 2011 PKF had begun their audit. It had then become apparent that the accounts were not of a robust standard and that International Financial Reporting Standards (IFRS) adjustments had not been properly made. Despite further work it had not been possible to achieve the publication date of 30 September, as required by the Accounts and Audit Regulations 2003.

The report gave details of the main issues arising from the audit and a revised set of the Statement of Accounts was tabled at the meeting, reflecting the ongoing work with the External Auditor. Members were informed that none of the work had necessitated any material change to either the outturn position or the general reserve balance previously reported. It was noted that a number of

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typographical errors would still need to be addressed but that an unqualified audit opinion would be issued on the financial statements.

Robert Grant from PKF provided an overview of the external auditor's report, which was attached at Appendix 1 to the report. This included details of the errors and inconsistencies, such as those with the fixed asset register, which had been corrected within the financial statements and that this had resulted in an estimated increase of £50,000 in fees due to the additional work undertaken. It was noted that the auditor was satisfied with the Annual Governance Statement and they would be issuing an unqualified value for money conclusion.

The Council's response to the issues identified was included as an annex to the auditor's report. Members were advised that a final review of the accounts would be undertaken by the External Auditor and the Audit Committee would be notified in writing of any issues arising.

Members discussed and expressed concern as to the changes that had to be made to the accounts, along with the additional work undertaken by the auditor and subsequent increase in their fee. Further concerns as to the delay in the audit process attributable to officers providing payroll and Care Director information were discussed. The Committee and Chief Finance Officer also considered the need to review the training requirements for Audit Committee Members in order to enable appropriate challenge on the accounts.

Responding to Members' concern as to the preparation of the accounts and the assurances provided by this process, the Chief Finance Officer explained a review would be undertaken but that through the process of correcting the accounts the expertise within the finance team, especially in accounting for IFRS, had been enhanced.

Members considered their ability to read, understand and approve the revised Statement of Accounts that had been tabled at the meeting. The Chief Finance Officer and External Auditor gave assurances that the necessary adjustments had now been made.

A briefing note was requested on the delay in providing payroll information and the process whereby these delays were escalated within the council. Further information would also be provided as to the claim, and its treatment within the balance sheet, arising from a legal proceeding by one of the council's contractors and also the treatment of the overpayment of housing benefit, as set out in paragraph 3.97 of the auditor's report and within the 'Debtors' notes to the accounts, and the housing benefit subsidy regime.

### **Decisions:**

- (a) The Audit Committee noted the issues raised and judgements made by the Auditor as presented in Appendix 1 to the report, and agreed the proposed response as set out at Appendix A to the Annual Governance report.

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- (b) The Audit Committee noted the assurance of the Chief Finance Officer and External Auditor that the amendments suggested by the External Auditor in paragraph 1.27 of the External Auditor's report had been made and therefore agreed the revised Statement of Accounts as tabled at the meeting, including the amended Accounting Policies set out within that document.
- (c) The Audit Committee agreed the Management Representations Letter, attached at Appendix C of the Annual Governance report.
- (d) The Audit Committee agreed the need for additional training to enable Committee Members required to fully undertake the Committees functions including the assessment of the Statement of Accounts in future
- (e) The Audit Committee requested a briefing note providing clarification on:
  - 1. the delay in providing payroll information and the process whereby these delays are escalated within the council
  - 2. the claim, and its treatment within the balance sheet, arising from the legal proceeding by one of the council's contractors
  - 3. the treatment of the overpayment of housing benefit, as set out in paragraph 3.97 of the auditor's report and within the 'Debtors' notes to the accounts, and the housing benefit subsidy regime.

### **529 Annual Audit Letter 2010/2011**

#### **Discussion:**

This report and appendix gave details of the work carried out by the Council's external auditor (PKF) in the 2010/2011 financial year in relation to their responsibilities on both finance and governance matters.

Robert Grant (PKF) summarised the key issues and findings. This included issues surrounding the preparation of the 2010/11 financial statements and financial resilience. The Committee were given details of how PKF were satisfied that proper arrangements had been made to secure economy, efficiency and effectiveness in the use of resources. The scope of efficiency savings arising from the Better for Less transformation programme, progress towards meeting council priorities and emerging issues were also highlighted.

The Committee discussed the contents of the Annual Audit Letter. Members considered and questioned how the auditors reached and presented their judgements. The role of the 'star chamber' approach within the budget and service planning process was also considered. Following questions concerning the audit of grant claims it was highlighted that a report on the External Auditor's audit of 2010/11 grant claims and other government returns would be submitted to the next meeting of the Audit Committee.

**Decision:**

The Audit Committee noted the content of the annual audit letter for 2010/2011.

**530 Fraud Resilience**

**Discussion:**

The Chief Finance Officer introduced this report on the outcome of PKF's assessment of the council's fraud resilience. The report provided details as to the national context and explained that following the publication of 'The Resilience to Fraud of the UK Public Sector' by PKF an assessment of the arrangements in place to address the risk of fraud in Medway had been undertaken. The PKF report resulting from this review was attached at Appendix A to the report.

It was reported that the key findings highlighted the lack of a proactive approach to fraud prevention and detection, a lack of joined up approach to corporate fraud, and no measurement of the level of potential losses. It was noted that these results placed Medway within the fourth quartile of public sector organisations. An Action Plan for strengthening fraud resilience was also attached at Appendix B to the report.

Members were also given details of the paper "Options Paper for the inclusion of Local Authority Benefit Fraud Investigations Teams in the Single Fraud Investigation Services". A copy of this, together with the Council's response, was attached at Appendix C.

Members discussed the assessment and considered the ranking, as Medway's assessment was based on site visits and interviews whereas the ranking of other public sector bodies was based upon a self assessment. The Action Plan was considered by the Committee to provide clear objectives for moving forwards. Members also considered the importance of fraud detection as part of the category management process under the Better for Less transformation programme, audit responsibilities for school academies and the importance of exploring the introduction of a fraud hotline to increase the number of fraud referrals.

The Committee agreed to adjourn the meeting for 5 minutes at the end of this item.

**Decisions:**

- a) The Audit Committee noted the outcome of the PKF report and approved the Action Plan.

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- b) The Audit Committee agreed that a further report is submitted to the Committee on progress in March 2012.
- c) The Audit Committee agreed that officers explore the introduction of a council-wide anti-fraud hotline.

### **531 Whistleblowing Report on Instances September 2010 - September 2011**

#### **Discussion:**

The Monitoring Officer introduced the report that advised Members of five concerns raised under the Whistleblowing Policy between September 2010 and September 2011. Details of the nature and outcome of these investigations were given. It was also explained how for the two data protection cases the risk of inadvertent disclosure had been minimised and that the outcome of the fourth case listed in the report was that, there was no case to answer.

It was noted that the Council's Whistleblowing Policy set out its commitment to tackling unlawful acts including fraud, corruption, unethical conduct and malpractice. The policy also encouraged all individuals to raise serious concerns about practices by the Council. The requirement to report to the Audit Committee on the number and nature of concerns raised was set out within the Anti-Fraud and Corruption Policy and the Whistleblowing Policy, both of which were set out within the Council's Constitution.

#### **Decision:**

The Audit Committee noted the report.

### **532 Bribery Act 2010**

#### **Discussion:**

This report gave details of the Bribery Act 2010, which came into force on 1 July 2011 and made significant changes to the law on bribery, including the introduction of a comprehensive scheme of bribery offences.

Members were advised of the offences included in the Act and the main implications for local authorities.

It was noted that the Anti-Fraud and Corruption Policy and the Whistleblowing Policy, both of which are part of the Council's Constitution, set out the basis for protecting public funds by ensuring that the opportunity for fraud and corruption was reduced to the lowest risk. As these may require revision in order to further reduce risk for bribery and it was proposed they are reviewed. Members stressed the importance of ensuring that when these documents are reviewed that they are publicised to all staff.

**Decisions:**

- a) The Audit Committee noted the contents of this report and the implications of the Bribery Act on the Council.
- b) The Audit Committee agreed that the relevant Council policies are reviewed to address the implications of the Bribery Act and that officers ensure that these policies are fully communicated to all staff.

**533 Outcomes of Internal Audit Activity**

**Discussion:**

The Audit Services Manager introduced this report on the outcome of completed internal audit activity and officers responded to Members' questions.

Members discussed the Business Continuity Planning audit and concern was expressed as to a lack of consultation with the Chatham Maritime Trust in relation to flood risk on St Mary's Island. The Chief Finance Officer undertook to relay these concerns to the Emergency Planning Officer.

In relation to the Rochester Christmas Market audit Members expressed concern as to the risk that the event may not have operated at 'nil cost' to the council and the finding that the 7 year licence agreement limited the actions that could be taken in respect of amending charges and introducing financial penalties. The Audit Services Manager undertook to report back to Members providing further information, in particular relating to the costs and the licence agreement.

Responding to Members questions on the Payroll audit, the Chief Finance Officer advised that as part of the Better for Less Programme, the recovery of salary overpayments would form part of enhancements planned for the recovery of corporate debt. It was also noted that all the recommendations arising from the audit had been agreed for implementation and the Committee requested a briefing note providing assurance as to the steps in place to recover these overpayments.

Following discussion on the findings of the Blue Badges audit, Members were assured that whilst stock control had been identified as a recommendation arising from the audit there was no evidence of any badges being taken. Members were also given details of the new customer database and contact system that was being introduced. The Audit Services Manager advised that work was being done by management in relation to the compatibility of the Council's systems to address the issues arising from Blue Badges. The ongoing development of the Customer First systems and other enforcement issues around Blue Badges are subject to discussion between the managers responsible and Internal Audit. These issues will be reviewed, tested and reported to the Audit Committee as part of the planned follow up.

**Decisions:**

- a) The Audit Committee noted the outcome of Internal Audit's work.
- b) The Audit Committee requested further information as to the Rochester Christmas Market, in particular relating to the costs and the licence agreement entered into, and a briefing note as to the steps in place to recover payroll overpayments.

**534 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 30 September 2011 and responded to Members' questions.

It was noted that there had been 17 successful prosecutions, seven administrative penalties and seven cautions for benefit offences. 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 £352,000 of fraudulent overpayments of Housing and Council Tax Benefit and £294,000 of Department for Work and Pensions paid benefit.

Responding to Members' questions the Chief Finance Officer explained how fraud overpayments of housing benefit could accumulate quickly and the Audit Services Manager undertook to provide Members with sentence details for the prosecutions completed during the second quarter 2011/12 and further information as to why the Department of Work and Pensions had declined to make an 'attachment' in case reference 53131/9730. The Chief Finance Officer also undertook to consider publicising the council's approach to rigorously investigating counter fraud as part of the wider review of anti fraud measures.

**Decisions:**

- a) The Audit Committee noted progress in investigating benefit fraud in accordance with the approved sanction policy.
- b) The Audit Committee requested further information as to the sentence details for the prosecutions completed during the second quarter 2011/12 and details concerning case reference 53131/9730.

**535 Internal Audit Work Programme**

**Discussion:**

Members were given a brief overview of the 2010/2011 and 2011/2012 internal audit work programme.



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The report detailed the internal work programme, which had been approved by the Committee in July 2011 and 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. Details were given as to the resourcing issues that had led to five audits being removed from the plan, as detailed within annex B to the report.

Members discussed the work programme and considered the importance of further audit/assurance work at schools, beyond the self-assessment assurance programme already included within the programme. The Chief Finance Officer undertook to explore with the Portfolio Holder for Finance the availability of resources to enable more school focused audit work and to inform the Audit Committee as to the outcome of this discussion.

During the discussion of this item Members considered the implications of school closures on existing contracts, as had arisen at Medway Community College. Members were advised that schools had significant autonomy over their school devolved budgets. This problem had arisen as the council had agreed closure of the school and in those circumstances the Council was liable for any assets and liabilities. The risk of re-occurrence did not however arise in relation to academy conversions (with the exception of sponsored academies) under current regulations, because when schools convert to an academy they retain their assets and liabilities. Members requested further information as to the photocopier contract with Medway Community College detailing the equipment provided, the costs involved and the measures employed to mitigate these costs such as the reprovision of these photocopiers to other council facilities. It was also explained that audit commission benchmarking data is available for schools and government bodies to assess value for money.

### **Decisions:**

- a) The Audit Committee noted the progress in completing the 2010/11 programme and delivering the 2011/12 audit plan 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 Chief Finance Officer urgently explore the availability of resources to enable more school focused audit work and to inform the Audit Committee as to the outcome of this.
- c) The Audit Committee requested further information as to the photocopier contract that Medway Community College had entered into, detailing the equipment provided, the costs involved and the measures employed to mitigate these costs.

**536 Exclusion of the Press and Public**

**Resolved:**

That the press and public be excluded from the meeting during consideration of the exempt material relating to agenda item 13 (Irregularity Report) because consideration of this matter in public would disclose information falling within Paragraph 7 of Part 1 of Schedule 12A to the Local Government Act 1972 as specified in agenda item 14 and, in all the circumstances of the case, the Committee considered that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

**537 Irregularity Report**

**Discussion:**

This report and exempt appendix informed Members of the outcome of a recent investigation.

Members discussed the investigation report and accompanying management action plan in detail and during this discussion requested further information as to the scale of the loss and how it had been attributed.

**Decisions:**

- a) The Audit Committee agreed that officers vigorously explore the actions available to the Council to address the matters highlighted in the report.
- b) The Audit Committee requested further information as to the scale of the loss set out in this report and how it had been attributed.

**Chairman**

**Date:**

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