

**MAIDSTONE BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**MINUTES (PART I) OF THE MEETING HELD ON  
19 SEPTEMBER 2011**

**Present:** Councillor Nelson-Gracie (Chairman) and  
Councillors Butler, Field, Warner and Yates

**Also Present:** Councillors Brindle, Daley, Garland and  
Greer  
Ms S Bubb and Mr S Golding –  
Audit Commission

35. APOLOGIES FOR ABSENCE

There were no apologies for absence.

36. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

37. NOTIFICATION OF VISITING MEMBERS

Councillors Brindle, Daley, Garland and Greer were in attendance for various items on the agenda.

38. URGENT ITEM

Report of the Head of Finance and Customer Services – Audit  
Commission’s Annual Governance Report 2010/11

The Chairman stated that, in his opinion, the report of the Head of Finance and Customer Services relating to the Audit Commission’s Annual Governance Report 2010/11 should be taken as an urgent item as the audited accounts had to be approved by the Audit Committee by 30 September 2011 and the Audit Commission’s Annual Governance Report 2010/11, which gave an opinion on the accounts, was not received in sufficient time to enable a report addressing the issues raised to be included on the original agenda.

39. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

40. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

41. EXEMPT ITEMS

RESOLVED: That the items on the agenda be taken in public as proposed except that further information relating to delays in the Maidstone Museum East Wing project contract programme should be taken in private as to discuss these matters in public could prejudice the Council's position in any proceedings to recover additional costs.

42. MINUTES OF THE MEETING HELD ON 18 JULY 2011

RESOLVED: That the Minutes of the meeting held on 18 July 2011 be approved as a correct record and signed.

43. AMENDMENT OF THE CONTRACT PROCEDURE RULES

The Committee considered the report of the Assistant Director of Environment and Regulatory Services setting out suggested amendments to the Contract Procedure Rules arising out of changes to UK legislation, a review of purchasing procedures for the acquisition of Council materials, services and works, and an update of related guidance documentation. It was noted that:-

- There was a clause within the Contract Procedure Rules stating that the Rules should be reviewed and updated on a regular basis. A Working Group comprising representatives of the Property and Procurement Team, the Head of Audit Partnership, the Head of Finance and Customer Services, the Head of Democratic Services and the Head of Legal Services had been established and a comprehensive review had now taken place. The findings of the review showed that the financial thresholds for the receipt of quotations and tenders established two years ago were consistent with those of the majority of other Borough and District Councils in Kent. It was recommended that the Council's financial spend should continue to be monitored for anomalies and adverse trends by the Procurement Team and that the existing financial thresholds be maintained at current levels subject to a further review in two years' time.
- Amendments were proposed to the purchasing procedures within the Council's Purchasing Guide arising from recent changes to the Council's senior management structure and delegated responsibilities.
- The opportunity had also been taken to correct ambiguities and other drafting irregularities within the Contract Procedure Rules and associated guidance documents.

The Committee asked a number of questions of the Officers relating to, inter alia, the minimum requirements in relation to contract documentation; the threshold for the recording of contracts in the Council's Contract Register and the process in the event of amendments being made to the value of a contract which might push it beyond that

threshold; the scheme of delegation in respect of Council purchasing; the acceptability of only one written quote in advance being required for the provision of works, supplies and services up to the value of £10,000; and the involvement of Internal Audit in the review of the Contract Procedure Rules.

Having considered the replies to its questions, the Committee:-

RESOLVED:

1. To RECOMMEND to the COUNCIL: That the Contract Procedure Rules within the Constitution be amended in accordance with the proposed wording set out in Appendix A to the report of the Assistant Director of Environment and Regulatory Services.
2. That subject to a further review in two years' time, the existing financial thresholds for the purpose of obtaining the appropriate number of quotations and tenders for the provision of Council required materials, services and works be maintained at the existing levels.
3. That appropriate amendments be made to the commentary and advice for Officers contained within the Council's Purchasing Guide.
4. That the Standards Committee be requested to evaluate the proposed amendments to the Contract Procedure Rules prior to them being considered by the Council.

44. INTERNAL AUDIT STRATEGIC PLAN

The Committee considered the report of the Head of Audit Partnership setting out details of the projects included in the three-year Internal Audit strategic plan. It was noted that:-

- The four-way Internal Audit Partnership between Maidstone, Ashford, Swale and Tunbridge Wells Borough Councils had been in place for almost 18 months. A survey of the Chief Executives of the partner authorities showed that the Partnership was considered to be successful, working well and providing an improved service. One of the business objectives of the Partnership was to co-ordinate audit work, where possible, in order to achieve efficiencies. This had culminated in the creation of individual three-year Internal Audit strategic plans for each partner authority.
- The three year Internal Audit strategic plan had been prepared to take full account of organisational objectives and priorities. It had been prepared on a risk basis which involved scoring each of the potential audit subjects in terms of materiality, inherent risk and control risk, taking into account changes to systems, revised management arrangements, past history and the views of Heads of Service. The plan started by setting out the audit work that would be carried out in relation to the fundamental financial systems,

which were reviewed on an annual basis. It then went on to set out the other service areas that would be subject to an internal audit, some of which had little or no financial risk, but were subject to regulatory, legal, technological or reputational risk.

- Once the planned work had been determined, it had to be compared to resource availability. This had been identified through a resource assessment as 500 annual productive/chargeable "auditor days" which was the total number of days available to the Maidstone Internal Audit team to spend on the strategic plan. It was anticipated that in the majority of cases, individual audit projects would be completed within 15 days.
- The Maidstone Internal Audit team consisted of three full time operational auditors supported operationally by an Audit Manager for two days of the week and strategically by the Head of Audit Partnership. Each auditor was expected to complete twelve projects each year. The majority of the time of the Maidstone auditors would be spent on Maidstone audit projects. However, they would also work at other partnership sites where it was efficient to do so. This would be reciprocated on a quid pro quo basis. The planned audit projects shown for 2011/12 to 2013/14 were considered to be achievable with the existing level of resources.

The Committee asked a number of questions of the Officers relating to, inter alia, the criteria for the inclusion of projects within the Internal Audit strategic plan; the adequacy of the resources and skills available to implement the plan; the operational implications of slippage in the plan and of auditors being diverted to undertake work in other departments within their authorities; the role of the Audit Committee in approving, but not directing the plan; and the arrangements for reviewing progress against the plan.

RESOLVED: That the three-year Internal Audit strategic plan for the period 2011/12 to 2013/14, attached as an Appendix to the report of the Head of Audit Partnership, be approved.

#### 45. STRATEGIC RISKS

The Committee considered the report of Corporate Management Team setting out a new Strategic Risk Register which was adopted by Cabinet at its meeting on 14 September 2011. It was noted that:-

- The Risk Register was intended to align as closely as possible with the Council's four-year Strategic Plan for delivering its priorities. It had been developed through a risk workshop process which sought to identify the risks to the successful delivery of the newly developed strategic priorities. Management Team had allocated the individual strategic risks to specific senior managers so that they could take personal responsibility for managing those risks. The "risk owners" had completed Management Action Plans setting out

the required management action, the Officer responsible for taking the action and the key dates for the action to be taken by. The Action Plans would be entered onto the corporate performance management system so that actions could be monitored, tracked and reported to Management Team and Cabinet on a quarterly basis as part of the performance monitoring reports.

- The role of the Audit Committee was to monitor the effective development and operation of risk management and corporate governance in the Council. The information contained within the report and Appendices provided assurance that strategic risk management arrangements had been developed effectively and were being operated effectively.

Members expressed concern that the risks identified were not risks as such, but statements and that there should be a distinction between strategic objectives and strategic risks. In addition, clarification was required as to how strategic risk management linked into service planning and the day to day operational management of the authority.

RESOLVED:

1. That the new Strategic Risk Register and the process leading to its creation be noted, but in future the Committee wishes to see improvements to the document clarifying the link between strategic risk management, service planning and the operational management of the authority.
2. That the Head of Audit Partnership be requested to submit a report to a future meeting of the Committee covering all aspects of risk management.
3. That feedback on the performance monitoring reports that are provided to Management Team and the Cabinet, and specifically the progress on actions relating to strategic risk management, should be submitted to the Committee on a regular basis.

46. AUDIT COMMISSION'S ANNUAL GOVERNANCE REPORT 2010/11

The Committee considered the report of the Head of Finance and Customer Services concerning the audit of the Statement of Accounts for 2010/11. It was noted that:-

- The External Auditor intended to issue an unqualified opinion on the 2010/11 financial statements. He was satisfied that the Council's 2010/11 accounts had been prepared to a reasonable standard, that the quality of the supporting working papers was good and that the Council had dealt successfully with the challenges posed by the first year implementation of International Financial Reporting Standards. He also intended to issue an unqualified conclusion stating that in 2010/11 the Council had proper arrangements in

place to secure economy, efficiency and effectiveness in its use of resources.

- The audit did, however, identify a number of significant errors in the un-audited Statement of Accounts. These related mainly to capital accounting entries, the contingent assets note and the disclosure of a material pensions figure. These had no impact on the general fund balance or any other financial resources available to the Council. As a result the External Auditor had made two specific recommendations to address the factors he had identified as being contributory to the identified errors. These had been accepted by the Officers and would be acted upon as a priority to avoid a repeat of such errors in the future.

The Committee asked a number of questions of the Officers and the representatives of the Audit Commission relating to, inter alia, the accounting treatment in respect of the three significant capital projects being undertaken by the Council, including the extension to Maidstone Museum, and the robustness of the capital management process; the adequacy of revenue reserves as a percentage of revenue expenditure (11.7%) to meet contingencies and provide financial stability; the basis for estimating pension assets and liabilities; the reasons for slippage in both revenue and capital expenditure resulting in an increase in investments held with banks and building societies; the reasons for some major variances in original and actual estimates across the portfolios; and the position with regard to Growth Point funding.

Having considered the replies to its questions, the Committee:-

RESOLVED:

1. That the Audit Commission's Annual Governance Report 2010/11, set out in draft form as Appendix A to the report of the Head of Finance and Customer Services, be approved and that, in approving the report, the Committee notes the adjustments to the Statement of Accounts 2010/11, approves the Letter of Representation to the Audit Commission and agrees the response to the proposed action plan to address the recommendations made.
2. That the Statement of Accounts 2010/11, as set out in Appendix B to the report of the Head of Finance and Customer Services, be approved.

47. EXCLUSION OF THE PUBLIC FROM THE MEETING

RESOLVED: That the public be excluded from the meeting for the following item of business because of the likely disclosure of exempt information for the reasons specified in Minute 41 above, having applied the Public Interest Test:-

**Head of Schedule 12 A and Brief Description**

Matters Arising from the Minutes of the Meeting held on 18 July 2011- Minute 33 - Maidstone Museum East Wing Project – Delays in Contract Programme

3 - Financial/Business Affairs  
5 - Legal Professional Privilege/Legal Proceedings

48. MAIDSTONE MUSEUM EAST WING PROJECT - DELAYS IN CONTRACT PROGRAMME

The Assistant Director of Regeneration and Cultural Services circulated a briefing note updating the position with regard to the delays in the Maidstone Museum East Wing project contract programme. The Committee asked questions of the Officers relating to the contractual, legal and financial implications.

Having received replies to its questions, the Committee gave instructions to the Officers as to how it wished to proceed.

49. DURATION OF MEETING

6.30 p.m. to 9.40 p.m.