

**MAIDSTONE BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**MINUTES (PART I) OF THE MEETING HELD ON  
28 NOVEMBER 2011**

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

**Also Present:** Councillor Garland and Mr S Golding –  
Audit Commission

50. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Field.

51. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

52. NOTIFICATION OF VISITING MEMBERS

Councillor Garland indicated his possible wish to speak on a number of items on the agenda.

53. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

54. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

55. EXEMPT ITEMS

RESOLVED: That the items on Part II of the agenda be taken in private as proposed.

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

RESOLVED: That the Minutes (Part I) of the meeting held on 19 September 2011 be approved as a correct record and signed.

57. MATTERS ARISING FROM THE MINUTES (PART I) OF THE MEETING HELD ON 19 SEPTEMBER 2011

Minute 46 - Audit Commission's Annual Governance Report 2010/11

The Head of Finance and Customer Services advised the Committee that the External Auditor had issued an unqualified opinion on the 2010/11 financial statements.

Appointment of Independent Member of the Audit Committee

In response to a question by a Member, the Director of Regeneration and Communities updated the Committee on the efforts being made to recruit an Independent Member of the Audit Committee. It was noted that the latest approach was to ask the Federation of Small Businesses and the Invicta Chamber of Commerce to put forward nominations, and it was hoped that this would generate some interest.

58. INTERNAL AUDIT - SIX MONTHLY INTERIM REPORT

The Committee considered the report of the Head of Audit Partnership setting out details of the work of the Internal Audit team over the six month period April-September 2011. It was noted that:-

- A total of 17 audit projects had been completed during the six month period (one of which was a consultancy review of the use of a time recording system by legal staff).
- Each audit review included an assurance assessment in terms of the adequacy of controls. Of the seventeen projects completed during the six month period, one project identified that a high level of control assurance was in place at the time of the audit, seven projects identified substantial assurance and six identified limited assurance. There were no areas where minimal assurance was in place. Four further audit projects did not receive an assurance assessment as it was not considered to be appropriate to the scope of the project.
- A follow-up to each report was completed, usually three to six months after the date of issue of the original report. The follow-up allowed the adequacy of controls to be reassessed, and Management was expected to have taken the necessary action to address the control weaknesses before the follow-up was undertaken. All of the follow-ups confirmed that control assurance had been maintained at substantial or had increased from limited to substantial following the implementation of the agreed recommendations.
- The follow-up review of Licensing undertaken in June 2011 found that, due to a lack of effective management action, the limited control assurance identified in the original report issued in January 2011 had not changed. A second follow-up carried out on 3

November 2011 confirmed that virtually all of the recommendations had been fully implemented and substantial progress had been made. If this had not been the case, a separate report would have been submitted to the Committee and the Head of Service would have been asked to attend the meeting to explain the reasons why. Follow-up reviews of the Cemetery and Crematorium, security of artefacts at the Museum and the controls in place over three of the Council's community halls had confirmed that the level of assurance in each case had increased from limited to substantial.

In response to questions by Members, the Head of Audit Partnership explained that:-

- Processes were in place to make sure that control weaknesses identified by Internal Audit, but not addressed effectively by Management, were escalated and, if necessary, reported to the Audit Committee. In the case of the review of Licensing, implementation of the agreed Action Plan was accelerated after the issue was raised at Management Team. The Council had not been disadvantaged financially by the delay in implementing the recommended actions which related primarily to the partnership arrangements, the migration of licensing data to the computer hub based at Sevenoaks and the timetable for the transfer of licences, including Hackney Carriage and Private Hire taxi licences.
- He was surprised at the number of audit reviews which had identified that a limited level of control assurance was in place at the time of the audit, but he did not think that there was an underlying theme. Where the audit work identified areas where controls were in need of improvement, this was taken seriously by the responsible managers. The Internal Audit team tried to apply a consistent approach to their work which not only placed a strong emphasis on reviewing the adequacy of financial controls, but also addressed all aspects of internal control, including the controls in place to manage risks. Details of the costs and income associated with each service area examined could be included in summary reports in future to assist Members in their assessment of the relative significance of audit findings.
- Details of the dates when follow-ups were actually carried out and the reasons for any delays could be included in the Internal Audit Annual Report.
- In relation to the Interreg Mosaic Project, Internal Audit acted as the "First Level Controller" responsible for agreeing and signing off each claim for European funding. This was purely an audit role.

Arising from these responses, the representative of the Audit Commission advised the Committee that generally there had been an increase nationally in the number of limited levels of control assurance. This was an indication of the economic downturn, financial pressures and the possible relaxation in internal controls.

RESOLVED:

1. That the results of the work of the Internal Audit team over the period April-September 2011 as set out in Appendix A to the report of the Head of Audit Partnership be noted.
2. That it be noted that during the period April-September 2011, seven areas were audited where substantial or high control assurance was in place at the time of the audit and four projects did not have a control assessment.
3. That it be noted that six areas were audited where only limited control assurance was in place at the time of the audit.
4. That the improvement in the internal control environment, identified during the audit follow up process and detailed in Appendix D to the report, be noted
5. That it be noted that there are no important control issues arising from internal audit work which are outstanding and need to be brought to the attention of Members.

59. AUDIT COMMITTEE - MEMBER TRAINING AND DEVELOPMENT

Consideration was given to a report by the Head of Audit Partnership setting out a suggested training programme for Members/Substitute Members of the Audit Committee. The Committee was asked to decide whether completion of all elements of the programme should be mandatory.

RESOLVED:

1. That the content of the proposed training programme and the arrangements for its delivery be approved.
2. That all new Members/Substitute Members of the Committee must complete the induction training within six months of appointment to the Committee.
3. That all remaining elements of the training programme should be mandatory for new Members of the Committee and completed within the timescales set out in the report.
4. That Substitute Members of the Committee, as occasional attendees, should only be required to undergo induction training, but with the option of attending further training sessions.
5. That existing Members of the Committee should be updated regularly on changes to legislation and procedures etc. and receive refresher training.

6. That arrangements be made for Members to receive the training on a one to one basis if they are unable to attend a session.

60. PROTECTING THE PUBLIC PURSE

The Committee considered a report by the Head of Audit Partnership concerning an annual report published by the Audit Commission entitled "Protecting the Public Purse". It was noted that the purpose of the report, which was aimed at Councillors and senior Officers responsible for governance, was to bring together information compiled by the Audit Commission, on a national basis, relating to fraud against local government. The most recent report was published on 11 November 2011 and showed some alarming trends in terms of fraud, not least the significant increase in the value of fraud by staff. A report would be submitted to a future meeting of the Committee setting out the Council's arrangements for managing the risk of fraud and tackling fraud where it exists.

RESOLVED:

1. That publication of the Audit Commission's annual report on "Protecting the Public Purse" be noted.
2. That it be noted that a report will be submitted to a future meeting of the Committee setting out the Council's arrangements for fighting fraud.

61. TREASURY MANAGEMENT STRATEGY MID-YEAR PERFORMANCE 2011/12

The Committee considered the report of the Head of Finance and Customer Services setting out details of the activities of the Treasury Management function for the 2011/12 financial year to date. It was noted that:-

- All investments had been on a short term basis to be used as agreed within the Council's Treasury Management Strategy for 2011/12;
- £3m of core cash funds were invested for one year with Lloyds TSB (part nationalised bank);
- The balance of investments as at 30 September 2011 was £26.275m;
- The average rate of interest received on the Council's investments over the period was 1.18% compared to a forecast level of 1.0% and investment income for the first half of 2011/12 was £150,000 compared to a budget of £125,000;
- A recent global downgrade in credit ratings from the Council's Treasury Management Advisers had led to changes in the level and term of investments to reduce exposure to risk.
- The Council was currently debt free so there was no need for long term borrowing.

In response to questions by Members, the Head of Finance and Customer Services explained the background to the decision to transfer the Council's banking arrangements to Lloyds TSB Bank.

RESOLVED:

1. That the activities of the Treasury Management function for the 2011/12 financial year to date be noted.
2. That no amendments to current procedures are necessary as a result of the mid-year review of Treasury Management activities.

62. AUDIT COMMISSION'S ANNUAL AUDIT LETTER 2010-11

The Committee considered the report of the Head of Finance and Customer Services setting out the Audit Commission's Annual Audit Letter covering the 2010/11 financial year. It was noted that:-

- The Annual Audit Letter provided a summary of the results of the Audit Commission's inspection activity at the Council during 2010/11. It gave an overview of the audit of accounts and the value for money opinion together with a review of current and future challenges.
- Overall, it was considered that the Council was performing well. An unqualified opinion on the financial statements had been issued together with an unqualified value for money conclusion. However, there were two issues that the Audit Commission had asked the Council to consider, these being the introduction of a specialist asset register system to deal with the more complex capital accounting requirements of International Financial Reporting Standards and the introduction of additional checks within the final accounts closedown process to ensure that the capital accounting entries were correct. The Officers were currently addressing these issues in preparation for the next assessment in 2012.

In response to a question by a Member, the representative of the Audit Commission advised the Committee that it was considered that the Council was reasonably on track in achieving its 2011/12 savings target and was well placed to address potential funding gaps identified over the lifetime of the Medium Term financial strategy. He added that consideration was being given to merging the Commission's Annual Governance Report and Annual Audit Letter in future.

RESOLVED: That the Audit Commission's Annual Audit Letter to Maidstone Borough Council be noted.

63. EXCLUSION OF THE PUBLIC FROM THE MEETING

RESOLVED: That the public be excluded from the meeting for the following items of business because of the likely disclosure of exempt

information for the reasons specified, having applied the Public Interest Test:-

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

Minutes (Part II) of the Meeting held on 19 September 2011	3 - Financial/Business Affairs 5 - Legal Professional Privilege/Legal Proceedings
Exempt Report of the Assistant Director of Regeneration and Cultural Services – Maidstone Museum East Wing Development Review	3 - Financial/Business Affairs 5 - Legal Professional Privilege/Legal Proceedings

64. MINUTES (PART II) OF THE MEETING HELD ON 19 SEPTEMBER 2011

RESOLVED: That the Minutes (Part II) of the meeting held on 19 September 2011 be approved as a correct record and signed.

65. MAIDSTONE MUSEUM EAST WING DEVELOPMENT REVIEW

The Committee considered the report of the Assistant Director of Regeneration and Cultural Services updating the position with regard to the delays in the Maidstone Museum East Wing project and setting out a proposed brief for the review to be undertaken of the project. Having received replies to its questions, the Committee gave instructions to the Officers as to how it wished to proceed.

66. DURATION OF MEETING

6.30 p.m. to 8.45 p.m.