

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

#### **MINUTES OF THE MEETING HELD ON 26 NOVEMBER 2012**

**Present:** Councillor Butler (Chairman) and  
Councillors Burton, Warner and Mrs Wilson

**Also Present:** Steve Golding and Darren Wells –  
Grant Thornton (External Auditors)

48. APOLOGIES FOR ABSENCE

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

49. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

50. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

51. URGENT ITEM - REVISED REPORT OF THE HEAD OF FINANCE AND  
CUSTOMER SERVICES - TREASURY MANAGEMENT STRATEGY MID-YEAR  
PERFORMANCE

It was noted that the Chairman had agreed to take the revised report of the Head of Finance and Customer Services relating to the Treasury Management Strategy as an urgent item to enable a recommendation to be made to the Council at its meeting on 12 December 2012 if considered appropriate.

52. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

53. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

54. EXEMPT ITEMS

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

55. MINUTES OF THE MEETING HELD ON 17 SEPTEMBER 2012

RESOLVED: That the Minutes of the meeting held on 17 September 2012 be approved as a correct record and signed.

56. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 17 SEPTEMBER 2012

(1) Minute 37 – Update on Proposed Single Fraud Investigation Service

In response to a question by a Member, the Head of Audit Partnership confirmed that a further report on the financial and operational consequences of the introduction of the Single Fraud Investigation Service would be submitted to the Committee in January or March 2013.

(2) Minute 38(3) – Audit Commission’s Annual Governance Report 2011/12

In response to a question by a Member, the Head of Finance and Customer Services confirmed that a copy of the valuation report from the Council’s External Valuers would be circulated to all Members of the Committee for information. He added that the District Auditor had issued an unqualified opinion on the 2011/12 Statement of Accounts.

(3) Minute 38(5) – Audit Commission’s Annual Governance Report 2011/12

It was noted that a meeting of the Chairman and Vice-Chairman of the Audit Committee and the Chairman and Vice-Chairman of the Corporate Services Overview and Scrutiny Committee had been arranged to take place on Wednesday 5 December 2012. The purpose of the meeting was to discuss the relationship between the two Committees and the development of complementary work programmes to avoid duplication.

(4) Minute 40 – Risk Management Update

A Member asked whether the Council as an employer was in a sufficiently robust position to meet the changing needs and priorities of the organisation. The Officers explained that this issue was being addressed in the strategic risk register which would be reported to the Committee in March 2013. In response to reservations expressed by Members about this timescale, the Head of Audit Partnership said that the outcome of the risk management workshop held on 19 November 2012 would be a draft strategic risk register which would be discussed initially at a Cabinet Away Day on 14 January 2013. The Committee would have an opportunity to comment on the first draft and any updates at its meeting later that day, and the worked up document would be reported to the Committee in March 2013 for its input. Members felt that, in the

meantime, the Member and Employment and Development Panel, given its role in workforce planning and development, should be asked to clarify the position regarding the knowledge and skills available within the Council's workforce to meet requirements, and any obvious shortfalls, to enable potential risks and appropriate mitigation measures to be identified.

RESOLVED:

1. That the position with regard to the preparation of the new strategic risk register be noted.
2. That the Member and Employment and Development Panel be asked to clarify the position regarding the knowledge and skills available within the Council's workforce to meet requirements, and any obvious shortfalls, to enable potential risks and appropriate mitigation measures to be identified.

57. AUDIT COMMISSION'S ANNUAL AUDIT LETTER 2011/12

The Committee considered the report of the Head of Finance and Customer Services setting out the Audit Commission's Annual Audit Letter covering the 2011/12 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 2011/12. As the main issues arising from the audit were dealt with in the Annual Governance Report which was presented to the last meeting of the Committee, the Letter was a much shorter summary document this year.
- Following the last meeting of the Committee, the District Auditor wrote to the Chairman detailing progress on outstanding issues, drawing his attention to changes made to the accounts since the meeting and outlining the action required before he could issue his audit opinion. In this letter, the District Auditor identified three issues where the Officers had decided not to amend the accounts, and he invited the Chairman to consider asking the Officers to make amendments in respect of these issues. The District Auditor indicated that if, following discussions with the Officers, the Chairman decided not to request a change to the accounts, the reasons for this decision should be specified in a revised Letter of Representation. However, if the decision was made not to amend the accounts for these items, he did not consider that this would affect his audit opinion.
- In his letter to the Chairman of the Committee, the District Auditor also referred to the reply he had received from the Council's External Valuers in response to his audit queries. He indicated that the External Valuers had identified a number of limitations to the scope and reliability of their valuations, particularly in respect of the timescale for their work, assumptions made and the extent to which

the valuations could be relied upon. In particular, they had made clear that their valuations were based on the information provided by the Council without any independent inspections. The District Auditor had therefore requested that the Officers include a statement within a revised Letter of Representation to confirm that the information provided to the External Valuers was accurate and complete.

- Upon receipt of the revised Letter of Representation signed by the Director of Regeneration and Communities confirming that amendments would not be made to the accounts in relation to the three items, and explaining the reasons for this decision, and that the information provided to the External Valuers in order to undertake their valuations was accurate and complete, the District Auditor issued an unqualified opinion on the 2011/12 Statement of Accounts and concluded that proper arrangements were in place to secure economy, efficiency and effectiveness in the use of resources.

In response to questions by Members about the problems experienced in relation to the revaluation of investment properties, the District Auditor confirmed that it was accepted that the arrangements for obtaining the valuations had not gone to plan, and he had requested information from the External Valuers to enable him to make a judgement as to the reasonableness of the outcomes. Having considered their response and the assurances given by the Council in the revised Letter of Representation, he had concluded that he had sufficient information to give an unqualified opinion on the audit. He would not have done so otherwise. The Director of Regeneration and Communities reiterated that she was satisfied that the information provided by the Council to the External Valuers to enable them to carry out their work was accurate and comprehensive. The problems which occurred related to the length of time it took the External Valuers to provide the required information and respond to the Council's concerns.

The Committee was reminded that it was a recommendation of the Action Plan contained within the Annual Governance Report that a review be undertaken of the arrangements in place for ensuring that revaluations carried out by the Council's Valuers are reliable, complete and provided within an acceptable timescale. This recommendation had been accepted as a high priority, and the outcome of the review would be reported to the Audit Committee as the Committee responsible for the adequacy and robustness of the accounts, and followed up as part of the post statements audit of the 2012/13 accounts. Although Members accepted that the Council had fulfilled its obligations in relation to the annual revaluation of investment properties required under accounting standards, they were concerned about the actuality of the valuations provided, and felt that the issue should be referred to the Corporate Services Overview and Scrutiny Committee for consideration, with any recommendations arising from its review being reported direct to the Cabinet.

RESOLVED:

1. That the Audit Commission's Annual Audit Letter to Maidstone Borough Council be noted.
2. That a copy of the revised Letter of Representation dated 28 September 2012 should be circulated to all Members of the Committee for information.
3. That the Committee's concerns regarding the actuality of the valuations provided by the External Valuers for inclusion in the accounts should be referred to the Corporate Services Overview and Scrutiny Committee for consideration, with any recommendations arising from its review being reported direct to the Cabinet.

58. EXTERNAL AUDIT FEES 2012/13

The Committee considered the report of the Head of Finance and Customer Services setting out details of the proposed reduction in external audit fees for the 2012/13 audit. It was noted that the Audit Commission no longer carried out public sector external audits and, following a tender process, Grant Thornton had been appointed as the Council's external auditors for the next five years. The Council's scale audit fee for 2012/13 had been set at £66,400 which, compared to the audit fee of £110,666 for 2011/12, represented a reduction of 40%. The composite indicative fee for grant certification work had been set at £17,600.

In response to questions by Members, the representatives of Grant Thornton confirmed that the firm was committed to providing the Council with a high quality external audit service. The reduction in the scale audit fee was mainly due to the reduction in Audit Commission overheads. The Officers acknowledged that there was a risk of additional fees being incurred should the external audit process identify any extra work that needed to be done. It was accepted that it was necessary to take a more robust approach to improving the quality of the draft financial statements and supporting working papers if the Council was to avoid the possibility of incurring additional fees, and, in this connection, action was being taken to ensure that the Finance Team has the necessary professional skills and an up to date knowledge of developments in financial reporting arrangements to carry out the work. In addition, the offer made by Grant Thornton to meet with the Team to explain their expectations of what was required had been accepted.

RESOLVED: That the proposed reduction in audit fees for the 2012/13 audit and the action being taken to mitigate the risk of additional fees being incurred be noted.

59. INDEPENDENT MEMBER OF AUDIT COMMITTEE

Following two unsuccessful attempts to recruit an Independent Member of the Audit Committee, the Head of Finance and Customer Services

submitted a report examining whether there might be alternative methods of obtaining an independent view on matters under consideration. It was noted that an assessment of the actions taken by other Audit Committees showed that the only option seemed to be the appointment of an Independent Member. It was not a requirement to have an Independent Member, but there were advantages to be gained in having an Independent Member with a relevant financial background to support the Committee in discharging its duties particularly in overseeing the financial reporting process and approving the Statement of Accounts. Approaches had been made by the Officers to neighbouring authorities, the Kent-Wide Auditors Group, the Chamber of Commerce, the Federation of Small Businesses and local accountancy firms, but there had been no expressions of interest. The feedback received was that this was because no remuneration was being offered for the role, other than the payment of expenses. However, it could be argued that the payment of an allowance might compromise independence.

In considering this matter, the Committee was mindful that the Government's draft Local Audit Bill contained provisions for the authority to appoint its independent external auditor on the advice of an "independent auditor panel". The outcome of the consultation on the draft Bill was awaited, but it was likely to be a requirement for the chairman of the panel and the other members to be independent. The draft Bill suggested that this might be achieved by appointing a single panel to advise a group of authorities or to incorporate the function into the terms of reference of existing Audit Committees subject to the membership being appropriate.

Members felt that, rather than awaiting the outcome of the consultation on the draft Bill, the search for an Independent Member should recommence immediately, initially by way of a press release and a letter to all Members of the Council enquiring whether they knew of any appropriately qualified people who might be interested in the appointment. In the meantime, a skills and experience matrix should be developed for Audit Committee Members which could then be used to analyse the skills and experience of existing Members and identify any gaps that could potentially be filled by an Independent Member.

RESOLVED:

1. That the Officers be requested to re-commence the search for an Independent Member of the Audit Committee immediately, initially by way of a press release and a letter to all Members of the Council.
2. That in the meantime, a skills and experience matrix should be developed for Audit Committee Members which can then be used to analyse the skills and experience of existing Members and identify any gaps that could potentially be filled by an Independent Member.

## 60. TREASURY MANAGEMENT STRATEGY MID-YEAR PERFORMANCE

In accordance with CIPFA's Code of Practice on Treasury Management 2011, the Committee considered the revised report of the Head of Finance and Customer Services setting out details of the activities of the Treasury Management function as at the mid-point of the 2012/13 financial year.

The report also addressed proposed amendments to the Treasury Management Strategy 2012/13 and the Prudential Indicators arising from the Cabinet's consideration of a report on investment opportunities, including the possible use of prudential borrowing to purchase assets to generate additional income to finance capital expenditure.

It was noted that:-

- £5m had been invested with Lloyds TSB (part nationalised bank), £3m for 346 days and £2m for 367 days.
- All other investments had been completed on a short term basis (up to one year) as agreed within the Treasury Management Strategy for 2012/13.
- The balance on investments as at 30 September 2012 was £28.45m.
- Investment income for the first half of 2012/13 had been above target. Income of £147k had been received compared to a budget of £124k, with an average rate of 1.23%.
- The Treasury Management Strategy included an assumption that borrowing would not be required in 2012/13 to support the Capital Programme. In the light of the decision of the Cabinet borrowing was now a possibility. Should prudential borrowing prove to be the most cost effective method of financing the Capital Programme then it would be necessary to have the permission to borrow clearly set out in the Strategy. The amendment required was therefore to include the assumed borrowing of £6m in the Strategy for 2012/13.
- The Prudential Indicators shown in Appendix C to the report included the amendments necessary to borrow up to £6m in relation to the Capital Programme and an additional £4m short term for cash flow purposes, making a maximum at any one time of £10m. The currently approved Strategy for 2012/13 includes £4m for each value making a maximum of £8m.

In response to questions by Members regarding the use of prudential borrowing to bring derelict residential properties back into habitable use, the Officers confirmed that such acquisitions would have to comply with CIPFA's Prudential Code for Capital Finance in Local Authorities and the property investment governance arrangements agreed by the Cabinet. The Council already had experience of working with partners on such initiatives.

The Committee noted the position with regard to the activities of the Treasury Management function as at 30 September 2012 and accepted the proposed amendments to the Treasury Management Strategy for 2012/13 and the Prudential Indicators, but sought assurances that the property investment governance arrangements are sound and that controls are in place to minimise the risks to the Council associated with this new area of activity. Specific concerns were raised as to whether it would be appropriate for Members of the Audit Committee to be Members of the Advisory Panel relating to Property Investment.

RESOLVED:

1. That the activities of the Treasury Management function at the mid-point of the 2012/13 financial year, as set out in the report of the Head of Finance and Customer Services, be noted.
2. To RECOMMEND to the COUNCIL: That the Treasury Management Strategy for 2012/13 be amended to include confirmation that up to £6m can be borrowed to support the Capital Programme and that the revised Prudential Indicators as set out in Appendix C to the report of the Head of Finance and Customer Services be approved.
3. That the Cabinet be requested to consider and respond to the assurances sought by the Audit Committee in connection with the possible use of prudential borrowing to purchase property assets to generate additional income to support the Capital Programme.

61. INTERNAL AUDIT 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 2012. It was noted that:-

- Eleven planned audit projects had been completed during the six month period. In addition, a number of other pieces of consultancy/investigative work had been carried out. No audit projects completed during the period identified areas as having "limited" or "minimal" control assurance in place.
- The output of the Team during the first six months of the year was always substantially lower than for the second half year. This was because April was used to finalise and issue reports for work which had been carried out in the previous financial year and because audit staff tended to take much of their annual leave during the first half year, thereby reducing the number of productive days for that period. It was anticipated that annual targets for output would be met by the end of the financial year.
- A follow-up to each report was completed, usually three to six months after the date of issue of each original report. The follow-up allowed the adequacy of controls to be re-assessed, 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 either been maintained or increased since the original audit.

- No significant control weakness had been identified that needed to be brought to the attention of the Committee.

In response to questions by Members, the Audit Manager confirmed that the emphasis during the second part of the year would be on delivering the remainder of the audit plan, and the need to use the salaries budget to deploy additional staff to achieve this target would be kept under review.

RESOLVED:

1. That the results of the work of the Internal Audit Team over the period April-September 2012, as set out in the report of the Head of Audit Partnership, be noted.
2. That the Committee agrees that the audit process is working effectively and that management is taking the necessary action to implement agreed audit recommendations.

62. INTERNAL AUDIT PARTNERSHIP - PROGRESS REPORT

The Head of Audit Partnership submitted a report updating the Committee as a key stakeholder on the progress made by the Internal Audit Partnership at the mid-point of the five year collaboration agreement signed by the four partner authorities. The report also included details of the actions proposed to further improve and develop the service. It was noted that since April 2010, the Internal Audit Partnership had met all of the objectives set out in the business case and achieved further savings than originally planned. Although the need to continue to provide a good quality audit service was the basis for the Partnership and remained the core objective, there were opportunities to develop the service further in relation to risk management, counter fraud, value for money and whether an alternative business model and structure would be more appropriate. The Head of Audit Partnership was currently working on these potential service developments, and would report back to the Officer Board in January 2013. Any proposed changes to the structure or cost of the service would be subject to the agreement of each Council.

In response to questions by Members, the Head of Audit Partnership confirmed that since the majority of the existing Benefit Fraud staff were due to transfer at some point to the Department for Work and Pensions under the Government's welfare reforms, he was working on a business case for the retention of some fraud staff to deal with counter fraud work, particularly in relation to Council Tax evasion and the management of business rates. He also indicated that he was not anticipating any increase in the cost of providing the service next year, and that consideration would be given to income generation provided that this did not have a detrimental impact on the service provided.

RESOLVED: That the progress made by the Internal Audit Partnership at the mid-point of the five year agreement, and the actions that are proposed to further improve and develop the service, be noted.

63. AUDIT COMMITTEE FREQUENCY OF MEETINGS

The Committee considered the report of the Director of Regeneration and Communities suggesting that the number of scheduled meetings of the Committee during the Municipal Year be reduced from six to four, with the first meeting of the year being scheduled for July. In response to questions by Members, the Officers confirmed that it was considered that four meetings a year would be sufficient for the Committee to carry out its business and meet its responsibilities, but additional meetings could be arranged if the need arose. In addition, a date could be set aside in June for Member training.

RESOLVED: That agreement be given to the number of scheduled meetings of the Audit Committee during the Municipal Year being reduced from six to four, with the first meeting of the year being scheduled for July and a date being set aside in June for Member training.

64. 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, having applied the Public Interest Test:-

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

Exempt Report of the Assistant Director of Regeneration and Cultural Services – Maidstone Museum East Wing Project Review - Update	3 - Financial/Business Affairs 5 - Legal Professional Privilege/Legal Proceedings
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65. MAIDSTONE MUSEUM EAST WING PROJECT REVIEW - UPDATE

The Committee considered the exempt report of the Assistant Director of Regeneration and Cultural Services updating the position with regard to the actions being taken in relation to the Maidstone Museum East Wing extension construction project. The report included details of the negotiations regarding the final account; the position with regard to the claim in relation to inaccurate surveying; and the progress being made on the review of the project commissioned by the Cabinet. The Officers updated Members on the discussions with the main contractor regarding the issue of water ingress to the lift pit. In response to questions by Members, the Officers confirmed that the claim in relation to inaccurate surveying would be pursued vigorously.

RESOLVED: That the report be noted.

66. DURATION OF MEETING

6.30 p.m. to 9.10 p.m.