

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 29 NOVEMBER 2010

Present: Councillor Horne (Chairman) and
Councillors Butler, Nelson-Gracie, Mrs Smith and
Mrs Wilson

Also Present: Mr S Golding and Ms E Hill –
Audit Commission

45. APOLOGIES FOR ABSENCE

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

46. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Mrs Wilson was substituting for Councillor Warner.

47. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

48. URGENT ITEM

The Chairman stated that, in his opinion, the report of the Head of Finance and Customer Services relating to the Audit Commission's Annual Audit Letter 2009/10 should be taken as an urgent item. He explained that the Letter had been received after the agenda for the meeting had been published, but given its importance to governance it should be considered by Members at the earliest opportunity to enable recommendations to be made to Cabinet and/or Council if necessary.

49. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members and Officers.

50. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

51. EXEMPT ITEMS

RESOLVED: That the items on the agenda be taken in public as proposed.

52. MINUTES

RESOLVED: That the Minutes of the meeting held on 20 September 2010 be approved as a correct record and signed.

53. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 20 SEPTEMBER 2010

Minute 37 – The Audit Commission (Future Arrangements)

The Head of Internal Audit Partnership advised the Committee that the Communities and Local Government Select Committee would be conducting an inquiry into the audit and inspection of local authorities following the abolition of the Audit Commission. The Select Committee had invited comments on the principles involved and the practical arrangements to be put in place. If Members wished to comment, he would be happy to collate their views and forward them to the Select Committee.

Minute 42 – Committee Work Programme

In response to a question by a Member, the Head of Business Improvement confirmed that the outcome of the review of Business Transformation and Mid-Kent Improvement Partnership costs and savings would be reported to the January meeting of the Committee. The Head of Internal Audit Partnership advised the Committee that the recommendations arising from the Local Government Improvement and Development review of the Audit Committee would also be reported to the January meeting.

54. INTERNAL AUDIT - SIX MONTHLY INTERIM REPORT

The Committee considered the report of the Head of Internal Audit Partnership setting out details of the work of the Internal Audit Section over the six month period April-September 2010. It was noted that:-

- The principal objective of the Internal Audit Section was to examine and evaluate the adequacy of internal control within the various systems, procedures and processes operated by the Council. The Audit Committee needed to be satisfied that the audit process was working efficiently and that management was taking the necessary action to implement agreed audit recommendations.
- The implementation of the new Internal Audit Partnership with Ashford, Swale and Tunbridge Wells Borough Councils had had an inevitable impact on the productivity of the Internal Audit Section during the first six months of the financial year due to the need to invest time in setting up the new arrangements across the four Councils. Productivity would increase during the second half of the year with the implementation of consistent information technology and co-ordinated working practices. In addition, one full-time member of the Internal Audit Section had suffered ill health during

the year, but financial resources had been approved by the Chief Executive to make up for the loss of productivity.

- A total of 11 audit projects had been completed during the six month period. A further three audits had been completed during this period by Maidstone auditors working at other partner sites. This resource would be repaid during the fourth quarter of the Audit Plan with auditors from the other partner Councils carrying out audits for Maidstone.
- Each audit review included an assurance assessment in terms of the adequacy of controls. Of the 11 projects completed during the six month period, one project resulted in an assessment of "high" and seven projects resulted in an assessment of "substantial". No services were assessed as having a "limited" or "minimal" level of assurance. Three 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, and the assurance assessment for areas found to have "limited" control in place at the time of the original audit was expected to have improved to "substantial" or "high" by the time that the follow up was completed. All but one follow up conducted during the reporting period confirmed that either a "substantial" or "high" level of assurance was in place at the time of the follow up. The exception was in relation to the fundraising arrangements for the Museum East Wing redevelopment project, and a further report would be submitted to the next meeting of the Committee. The follow up review of the Business Transformation Programme was awaited and would be the subject of a separate report to the next meeting of the Committee.

The Committee asked a number of questions of the Officers relating to, inter alia, complaints from staff about mistakes in the payroll and the need for induction and refresher training on the iTrent system; the action being taken to protect the server equipment in the Data Centre from water damage from rain water; the procedures in place to enable network accounts to be disabled and IT assets to be recovered from employees leaving the Council; the arrangements in place to complete the reports/projects in this year's Audit Plan; the disclosure of write-offs over £500 under the rules of transparency reporting; the possibility of amending the Audit Plan in response to changes in service delivery; and the possibility of looking at ways to increase car parking income.

With regard to the latter point, the Head of Internal Audit Partnership advised the Committee that the Parking Services Manager had undertaken a cost/benefit analysis of introducing a system which would allow payments to be made by mobile phone, but it had been concluded that the costs could not be justified. However, the matter would be kept under review.

RESOLVED:

1. That the results of the work of the Internal Audit Section over the period April-September 2010 as set out in Appendix A to the report of the Head of Internal Audit Partnership be noted.
2. That it be noted that during the period April-September 2010 no services have been assessed as having unsatisfactory "limited" or "minimal" controls.
3. That it be noted that "substantial" or "high" levels of control assurance have been found to be in place, as detailed in Appendix B to the report.
4. That the improvement in the internal control environment, identified during the audit follow up process and detailed in Appendix C to the report, be noted.
5. That the action that is being taken to deliver the remainder of the 2010/11 Audit Plan, as detailed in Appendix D to the report, be endorsed.
6. 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.

55. TREASURY MANAGEMENT STRATEGY MID YEAR PERFORMANCE 2010/11

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 2010/11 financial year to date in accordance with CIPFA's Code of Practice on Treasury Management issued in November 2009.

The report included a summary of the objectives set out in the Council's Treasury Management Strategy for 2010/11 together with an economic overview and an overview of the Council's investments during 2010/11 to date. A revised Appendix B to the report was circulated explaining the new credit rating system implemented recently by Sector (the Council's Treasury Management advisers). It was noted that, as agreed within the Strategy, all investments had been on a short-term basis with highly credit rated financial institutions, using the credit worthiness list and information provided by Sector as well as having regard to market intelligence. The balance of investments as at 30 September was £27.2m. The average rate of interest received on the Council's investments over the period was 1.9%. The target for 2010/11 was assumed to be 3.0% as rates were originally forecast to increase during 2010. Investment income for the first half of 2010/11 was £181,692 compared to a budget of £199,315. The full year predicted shortfall was £40,000, the funding of which was being addressed through management action as part of the budget strategy work for 2011/12. There had been no need to borrow within the first half of 2010/11.

In response to questions and comments by Members, the Head of Finance and Customer Services undertook to include reference in the Treasury Management Strategy objectives to the contingency for prudential borrowing of up to £4million during 2010/11 subject to the prior agreement of the Cabinet. He also explained the position with regard to the liability to Serco for the Leisure Centre refurbishment and undertook to confirm to Members the credit rating of the Kent Reliance Building Society.

RESOLVED:

1. That the activities of the Treasury Management function for the 2010/11 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.

56. IMPLEMENTATION OF IFRS IN LOCAL AUTHORITY ACCOUNTS

The Committee considered the report of the Head of Finance and Customer Services setting out details of the progress to date with regard to the implementation of IFRS (International Financial Reporting Standards) for the Council. It was noted that with effect from 2010/11 the Council was required to prepare its accounts in accordance with the requirements of IFRS. Progress to date on the main work streams, including fixed assets, leasing, component accounting, accounting for employee benefits and the primary statements indicated that the Council was broadly on target to produce an IFRS compliant Statement. Members and Officers had attended relevant training courses and the Council was part of the Kent IFRS Implementation Group. One issue that might hold up progress was the lack of detailed guidance notes from CIPFA. It was anticipated that the notes would be available before Christmas and that, as a result, additional areas where further work was required might be identified.

The Committee asked a number of questions of the Officers relating to, inter alia, the implications of staff not taking annual/flexi leave in terms of their efficiency and wellbeing and whether the implementation of IFRS would improve the Council's knowledge and ability to deal with the Balance Sheet.

RESOLVED: That the progress made to date with regard to the implementation of IFRS in the preparation of the Council's accounts be noted.

57. AUDIT COMMITTEE WORK PROGRAMME

The Director of Regeneration and Communities sought Members' views on the format and content of a proposed future work programme for the Audit Committee.

RESOLVED:

1. That the proposed future work programme for the Audit Committee be noted and that Members be requested to submit their comments and other topics for inclusion in the programme to the Director of Regeneration and Communities.
2. That agreement be given to the inclusion in the programme of a quarterly work in progress report from the External Auditors.

58. AUDIT COMMISSION'S ANNUAL AUDIT LETTER 2009/10

The Committee considered the report of Management Team setting out the Audit Commission's Annual Audit Letter covering the 2009/10 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 2009/10. 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; an unqualified value for money conclusion had also been issued; the Council was on track to achieve its timetable for the production of IFRS compliant accounts; there was an excellent financial management framework with a good practice budget setting process; there was an excellent system of financial monitoring; there was a robust procurement strategy; there were good data quality policies and systems in place; there was a sound governance framework; there were effective risk management arrangements; and there was a strong track record of effective action to conserve natural resources. However, there was a small number of issues that the Audit Commission had asked the Council to consider including the quality of working papers for financial statements; closer communication over complex accounting issues; and reconciliation of the estate management system with the asset register. The Officers were currently working through these issues in preparation for the next assessment in 2011 and these would be incorporated into the Corporate Improvement Plan.
- Future challenges included identifying and delivering significant savings in the light of the economic downturn and the recent comprehensive spending review. The Audit Commission would continue to monitor the Council's financial position and the delivery of savings throughout the 2010/11 audit.

The Committee asked a number of questions of the Officers and the representatives of the Audit Commission relating to, inter alia, the possible link between the deterioration in the standard of working papers for financial statements and the loss of a key member of the Corporate Finance Section during the audit; the type of complex and/or unusual transactions in respect of which it was felt that the accounting implications

should be discussed at an early stage with External Audit to enable the accounting treatment to be agreed prior to production of the financial statements; the survey carried out by the Audit Commission during 2010 to assess Councils' progress on the transition to IFRS and the assessment of the Council's performance as "Amber"; and the implications of the withdrawal of Ashford Borough Council from the Mid-Kent Improvement Partnership.

With regard to audit fees for 2010/11, Ms Hill explained that the final position had yet to be confirmed. The costs associated with the winding up of the Audit Commission would have to be met, and discussions were taking place with the Department for Communities and Local Government.

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

59. DURATION OF MEETING

6.30 p.m. to 7.30 p.m.