

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 11 JUNE 2012

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

1. **APOLOGIES FOR ABSENCE**

It was noted that apologies for absence had been received from Councillor Warner and Mr Steve Golding of the Audit Commission.

2. **NOTIFICATION OF SUBSTITUTE MEMBERS**

There were no Substitute Members.

3. **NOTIFICATION OF VISITING MEMBERS**

There were no Visiting Members.

4. **ELECTION OF CHAIRMAN**

RESOLVED: That Councillor Butler be elected as Chairman of the Committee for the Municipal Year 2012/13.

5. **ELECTION OF VICE-CHAIRMAN**

RESOLVED: That Councillor Warner be elected as Vice-Chairman of the Committee for the Municipal Year 2012/13.

6. **DISCLOSURES BY MEMBERS AND OFFICERS**

Councillor Burton disclosed a personal interest in the report of the Head of Audit Partnership relating to the Internal Audit Annual Report 2011/12 insofar as it included details of the results of the review in relation to community halls. He stated that he was a Trustee of Fusion, the booking agents for Heather House.

With regard to the report of the Chief Executive concerning the draft Annual Governance Statement which included reference to Parish Council funding, Councillor Burton stated that he was a Member of Langley Parish Council.

7. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

8. EXEMPT ITEMS

RESOLVED: That the Minutes (Part II) of the meeting held on 19 March 2012 be considered in public, but the information contained therein should remain private.

9. MINUTES (PARTS I AND II) OF THE MEETING HELD ON 19 MARCH 2012

RESOLVED: That subject to the correction of the typographical error in the second sentence of the fourth paragraph of Minute 99, the Minutes (Parts I and II) of the meeting held on 19 March 2012 be approved as a correct record and signed.

10. MATTERS ARISING FROM THE MINUTES (PARTS I AND II) OF THE MEETING HELD ON 19 MARCH 2012

(1) Minute 88 (1) – Appointment of Independent Member of the Audit Committee

The Head of Finance and Customer Services updated the Committee on the efforts being made to recruit an Independent Member of the Audit Committee. He explained that, as agreed at the last meeting, three people who, it was understood, might be interested had been contacted with a two week deadline to respond with information to enable consideration to be given to the appointment at this meeting. One person had responded to the effect that he was unable to meet the deadline due to time constraints, one person had responded saying that having reviewed the schedule of meetings, he was unable to give the commitment required, and one person had not responded at all. He would follow up these contacts with a view to reporting back to the next meeting. If necessary, the position could be re-advertised.

It was suggested that the Leader of the Council be asked to seek expressions of interest in the appointment when addressing local business forums and that consideration be given to amending the arrangements for meetings of the Committee if necessary to accommodate a suitable candidate.

RESOLVED:

1. That the position be noted.
2. That the Head of Finance and Customer Services be requested to return to the three people who have previously expressed an interest in being appointed as an Independent Member of the Audit Committee to ascertain their continued interest and to follow up the suggested approach to local business forums.

(2) Minute 94 – Internal Audit Operational Plan 2012/13

In response to a question by a Member, the Head of Audit Partnership advised the Committee that following a recruitment process, an appointment had been made to fill the vacancy which had arisen in the Maidstone Internal Audit Team.

(3) Minute 99 – Maidstone Museum East Wing Project Review – Update

RESOLVED: That a report updating the position with regard to the Maidstone Museum East Wing project review must be submitted to the next meeting of the Committee.

11. APPOINTMENT OF POLITICAL GROUP SPOKESPERSONS

RESOLVED: That the following Members be appointed as Spokespersons for their respective Political Groups for the Municipal Year 2012/13:-

Councillor Butler – Conservative Group
Councillor Warner – Liberal Democrat Group

12. BENEFIT FRAUD ANNUAL REPORT

The Committee considered the report of the Director of Regeneration and Communities setting out details of the performance of the Benefit Fraud Team during 2011/12. The report included an explanation of the background to the implementation of the shared service arrangements for the delivery of the counter fraud function in relation to Housing and Council Tax Benefit together with details of the staffing structure of the Benefit Fraud and Visiting Team; how benefit fraud was detected and the results from 2011/12; the sanctions applied depending on the offence committed and the circumstances of the case; the costs to the Council of delivering the service and the total monetary value of fraud found; the publicity given to successful prosecutions; and the implications of the Welfare Reform Act and the introduction of Universal Credit. It was noted that:-

- Referrals were received from various sources, including Department for Work and Pensions (DWP) data matching and the National Fraud Initiative. 305 of the 540 referrals were raised as investigations and the remainder were passed to the Compliance Officer for informal action or the DWP Counter Fraud Service.
- In 2011/12 there were 11 prosecutions, 11 administrative penalties and 4 cautions. The cost to the Council of delivering the service was £197,129 with a total benefit saving of £705,468.94.
- The Council had robust procedures to recover any overpayments of benefit and administrative penalties and the overall in year collection rate for benefit overpayments in 2011/12 was 84%.
- The provisions of the Welfare Reform Act and the introduction of Universal Credit would impact on the Fraud Investigation Team from 2013. The DWP would be responsible for the administration of

the new Universal Credit and the investigation of fraud would transfer from the Council to a new Single Fraud Investigation Service that would also be operated by the DWP. Following an earlier consultation exercise the DWP had stated that its intention was for staff to initially continue to be employed by the Council whilst undertaking work in line with DWP policies and procedures. This represented an interim measure with the longer term intention being the full transfer of staff and unification of a single team within the DWP.

- Given that the Council would have an ongoing responsibility to investigate Council Tax Benefit Fraud, Single Person Discount Fraud and other forms of corporate fraud, the Head of Internal Audit and the Head of Revenues and Benefits were currently exploring how the specialist investigation skills held within the Benefit Fraud Team could be retained and used to provide a wider corporate saving.

In response to questions by Members, the Head of Revenues and Benefits confirmed that the highest number of referrals came from front line staff. The Head of Audit Partnership explained that the future transfer and loss of trained and experienced staff to the DWP created a risk that the Council would not have the skills and resources necessary to investigate the significant threat that would remain in relation to Council Tax Benefit, discounts and other forms of corporate fraud. A business case was being developed with a view to putting in place arrangements which would enable the Council to deliver a quality fraud investigation service and an anti-fraud approach.

RESOLVED:

1. That the performance of the Benefit Fraud Team during 2011/12 be noted.
2. That the proposed changes to the delivery of the benefit fraud function from April 2013 be noted and that the Officers be requested to submit a further report to the meeting of the Committee scheduled to be held on 17 September 2012 outlining the detail of those changes and the implications for the investigation of corporate fraud.

13. INTERNAL AUDIT ANNUAL REPORT 2011/12

The Committee considered the report of the Head of Audit Partnership setting out details of the work of the Internal Audit Team over the financial year 2011/12 and the opinion of the Head of Audit Partnership on the overall adequacy and effectiveness of the Council's control environment, in the context of the Annual Governance Statement.

The Head of Audit Partnership advised the Committee that he wished to correct the third column of the table set out in paragraph 1.3.40 of the report relating to assurance levels as follows:-

Control Assurance	2011/12	Previous Year
High	1	6
Substantial	21	14
Limited	7	3
Minimal	0	0
Not Given	6	7
Total	35	30

It was noted that:-

- The statutory Code of Practice for Internal Audit in Local Government in the United Kingdom required the Head of Audit Partnership to provide a written report to those charged with governance, timed to support the Annual Governance Statement.
- The Accounts and Audit Regulations 2011 also required that the Council "must, at least once a year, conduct a review of the effectiveness of its internal audit". It was considered that the Internal Audit Annual Report provided evidence of the effectiveness of internal audit and the Committee was asked to treat consideration of the report as "the review".
- It was the opinion of the Head of Audit Partnership that substantial reliance could be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes that were in place to achieve the objectives of the Council. There were no qualifications to that opinion.
- The opinion on the control environment was principally formed through the results of the work of the Internal Audit Team during the financial year, but other factors had also been considered such as the results of external audit work during the year and any concerns expressed by the External Auditor; the effectiveness of the Council's risk management arrangements; significant control breakdowns during the financial year, whether they were found by Internal Audit or not; the results of any other form of external inspection or assessment; and the effectiveness of senior management in resolving control weaknesses.
- Thirty five audit projects were completed between April 2011 and March 2012 which represented 97% of the original audit plan.
- The work of the Internal Audit Team had established that for the majority (76%) of the areas examined, substantial controls were in place at the time of the original audit. Where weaknesses had been identified, the appropriate Head of Service had agreed the action to be taken to rectify those weaknesses.
- As a result of the follow-up process, 97% of the areas reviewed were assessed to have a satisfactory level of control assurance, with one audit relating to emergency planning awaiting a follow-up

assessment at the end of the financial year. In the context of the preparation of the Annual Governance Statement, this would need to be shown as an “outstanding control weakness” as at 31 March 2012.

The Committee asked a number of questions of the Officers relating to, inter alia, the action taken on issues which the Audit Commission had asked the Council to consider arising from external audit work during 2011/12; the adequacy of the actions being taken in response to the findings of the review of the Council’s emergency planning arrangements; the logistical issues associated with the Mid-Kent Internal Audit Partnership; the adequacy of the resources available to facilitate the risk management process; the reasons why some audit projects did not include a control assurance assessment (for example, the work carried out to validate the accuracy of the Interreg Claim); the action taken following the investigation into the theft of a fuel card at the Depot; the arrangements for allocating work to members of the Internal Audit Team and for recording the actual time spent on individual audit projects; and the role of Members in the internal audit process.

The Head of Audit Partnership indicated that he would report back to the September meeting of the Committee on the outcome of his discussions with the Chief Executive regarding the adequacy of the resources available to take forward the Council’s risk management arrangements.

Some Members expressed concern that being new to the Audit Committee, it was difficult to understand the terminology used and how some of the key findings of audit projects related to the level of assurance issued. The Head of Audit Partnership undertook to improve the way in which the reports were worded and presented and to arrange training to assist Members in their understanding of the issues and their role in the process.

RESOLVED: That having considered the replies to its questions and received assurances from the Officers that their concerns will be addressed through training and improved reporting, the Committee:-

1. Notes the Head of Audit Partnership’s opinion that substantial reliance can be placed on the Council’s control environment in terms of the overall adequacy and effectiveness of the controls and processes which are in place to achieve the objectives of the Council;
2. Notes that there are no qualifications to that opinion;
3. Notes the work of the Internal Audit Team over the period April 2011 to March 2012, as shown in Appendix A to the report of the Head of Audit Partnership, and that this is the prime evidence source for the opinion;
4. Agrees that the outcomes of the internal audit work and the other matters referred to in the report of the Head of Audit Partnership provide evidence of a substantial level of internal control within the

Council, which supports the findings and conclusions shown in the Annual Governance Statement for 2011/12;

5. Notes the improvements in control that occur as a result of the audit process; and
6. Agrees that it is satisfied that the Council's Internal Audit service is effective.

14. ANNUAL GOVERNANCE STATEMENT

In accordance with its responsibility for governance and risk, the Committee considered the report of the Chief Executive setting out the draft Annual Governance Statement for 2011/12 to be signed by the Chief Executive and the Leader of the Council and accompany the Statement of Accounts. It was noted that the draft Annual Governance Statement would be considered by the Cabinet at its meeting on 13 June 2012, and the views of the Audit Committee would be reported to that meeting.

In considering the draft Annual Governance Statement, the Committee took into account a document published by Grant Thornton entitled "Local Government Governance Review 2012". This document was published shortly after publication of the agendas for the meetings of the Audit Committee and the Cabinet. It was suggested that it would be a relevant addition to the actions for 2012/13 if this document were to be assessed in comparison with the Annual Governance Statement. Any changes that would benefit the Council could then be made to future Statements.

Arising from its consideration of the other actions listed in the table in Section 5.2 of the draft Annual Governance Statement, the Committee noted that the decision made by the Council at a special meeting held on 15 December 2010 that a report be submitted to the Council at the appropriate time outlining the advantages and disadvantages of returning to the Committee system and the procedures necessary to achieve that was missing from the actions for 2012/13. It was suggested that the Cabinet be recommended to consider including this as a separate action point or as part of the action point relating to the OSC Review of Governance.

The Committee also identified a number of grammatical and typographical errors in the document. The Head of Finance and Customer Services confirmed that these would be corrected prior to the document being signed by the Chief Executive and the Leader.

RESOLVED:

1. That the draft Annual Governance Statement for 2011/12 be endorsed subject to the correction of grammatical and typographical errors in the document and the following:-

That the Cabinet be recommended to add the following governance issue to the table in Section 5.2 of the draft Annual Governance Statement:-

Governance Issue	Required Action	Target Date
<p>Local Government Governance Review 2012</p> <p>That an assessment is completed of the "Local Government Governance Review" published by Grant Thornton.</p>	<p>That Corporate Leadership Team assesses the Annual Governance Statement against the findings of the review and takes action to ensure the Council's statement is in line with the best practice as set out in the review.</p>	<p>By July 2012</p>

That the Cabinet be recommended to consider the following decision made by the Council at a special meeting held on 15 December 2010 as a separate action point in the table in Section 5.2 of the draft Annual Governance Statement or as part of the action point relating to the OSC Review of Governance:-

"That a report be submitted to the Council at the appropriate time outlining the advantages and disadvantages of returning to the Committee system and the procedures necessary to achieve that."

2. That the findings and actions taken by the Corporate Leadership Team in relation to the assessment of the Annual Governance Statement against the findings of the Local Government Governance Review 2012 be submitted for further consideration by the Audit Committee at its meeting on 17 September 2012.

15. TREASURY MANAGEMENT ANNUAL REPORT 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. It was noted that:-

- The level of investments as at 31 March 2012 was lower than originally estimated due to the provisional assessment being overestimated.
- All new investments throughout the year had been on a short term basis (less than one year) with the exception of the £3m core cash

set aside for longer term investments. This had been invested with Lloyds TSB Bank for one year at a rate of 2.1%.

- Despite investments being at a lower level than expected, the investment income (£312k) was higher than budgeted (£250k) due to the Council receiving premium rates on short term investments from institutions, including Lloyds TSB Bank.
- The Council had borrowed short term funds on two occasions due to liquidity reasons. This was permitted within the Treasury Management Strategy.
- The Council had agreed to increase the limits with UK institutions and AAA institutions and this had decreased the Council's level of risk exposure to lower credit rated organisations.

In response to questions by Members, the Head of Finance and Customer Services explained that the transfer of the Council's banking arrangements to Lloyds TSB Bank had no impact insofar as the Council's investments were concerned and that the borrowing had occurred due to the timing of grant payments being misjudged. The situation had been reviewed and arrangements put in place to prevent it happening again.

RESOLVED:

1. That the review of the financial year 2011/12 which has been compiled in accordance with the Code of Practice on Treasury Management, as adopted by this Authority, be noted.
2. That no amendments to current procedures are necessary as a result of the review of Treasury Management activities in 2011/12.

16. AUDIT COMMISSION PROGRESS REPORT - JUNE 2012

The Committee considered the report of the Head of Finance and Customer Services setting out the External Auditor's report on the progress to date against the 2011/12 audit plan. The Head of Finance and Customer Services advised the Committee that, unfortunately, Mr Steve Golding, the Audit Manager, was unable to attend the meeting to present the report. It was noted that:-

- The External Auditor had raised no concerns with the Council in the report on progress to date, and, in general, the progress of the External Auditor was in line with the original audit plan.
- Following the Government's decision to tender the audit activities carried out by the Audit Commission, the contract for the Kent, South London and Surrey area was awarded to Grant Thornton for the five year period 2012/13 to 2016/17. The new audit appointment would commence on 1 September 2012, and the Audit Commission had extended the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012

to be dealt with. The Commission had arranged a number of events with the successful firms and the Head of Finance and Customer Services had attended a meeting with Grant Thornton in May. Audit Practice staff in the Kent Team would be transferring to Grant Thornton on 31 October 2012.

- The scale audit fee for 2012/13 would be £66,400, which represented a 40% reduction on the 2011/12 scale fee, and had been budgeted for.

In response to questions by Members, the Head of Finance and Customer Services explained that Grant Thornton was a large, international firm which had not worked with the Audit Commission before and was not encumbered in any way. During the period that he had been employed by the Council, the External Auditor had never issued a qualified opinion on the Council's accounts.

RESOLVED: That the External Auditor's report on the progress to date against the 2011/12 audit plan be noted.

17. DURATION OF MEETING

6.30 p.m. to 8.50 p.m.