

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 14 JANUARY 2013

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

Also Present: **Councillor English**

67. APOLOGIES FOR ABSENCE

There were no apologies for absence.

68. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

69. URGENT ITEM

The Chairman stated that, in his opinion, the reference from the Corporate Services Overview and Scrutiny Committee seeking clarification of the Audit Committee's reference to that Committee relating to the revaluation of investment properties should be taken as an urgent item in view of the length of time until the next meeting.

70. NOTIFICATION OF VISITING MEMBERS

Councillor English indicated his wish to speak on the report of the Head of Democratic Services concerning the relationship between the Audit and Corporate Services Overview and Scrutiny Committees.

71. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

72. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

73. EXEMPT ITEMS

RESOLVED: That the items on the agenda be taken in public as proposed except that matters arising from Minute 65 of the Minutes of the meeting held on 26 November 2012 (Maidstone Museum East Wing Project Review – Update) should be taken in private insofar as to discuss these issues in public could prejudice the Council's position in any proceedings to recover additional costs.

74. MINUTES OF THE MEETING HELD ON 26 NOVEMBER 2012

RESOLVED: That the Minutes of the meeting held on 26 November 2012 be approved as a correct record and signed.

75. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 26 NOVEMBER 2012

Minute 56(2) – 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 had been circulated to all Members of the Committee for information, but he would arrange for it to be circulated again.

76. RELATIONSHIP BETWEEN THE AUDIT COMMITTEE AND THE CORPORATE SERVICES OVERVIEW AND SCRUTINY COMMITTEE

The Committee considered the report of the Head of Democratic Services setting out details of the recommendations arising from the meeting between the Chairman and Vice-Chairman of the Committee and the Chairman of the Corporate Services Overview and Scrutiny Committee to discuss the relationship between the two Committees. It was noted that at this meeting:-

- It was explained that the role of the Audit Committee differed from that of the Overview and Scrutiny Committees in that the role of scrutiny was to review policy and challenge whether the Executive had made the right decisions to deliver policy goals. The Audit Committee, however, provided independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council’s financial and non-financial performance to the extent that it affected the Council’s exposure to risk and affected the control environment, and oversight of the financial reporting process.
- It was recognised that although the Audit Committee’s work programme was driven largely by statute and the governance and financial reporting cycle, there was a potential overlap between the work of the Audit Committee and the Corporate Services Overview and Scrutiny Committee having regard to their terms of reference. Additionally, there could potentially be areas of overlap with the other Overview and Scrutiny Committees. It was considered, therefore, that the co-ordination of work programmes was desirable not only to avoid duplication of work, but to ensure that resources were used most effectively.
- The Chairmen and Vice-Chairman had also discussed whether there was a need for a protocol to manage the referral of issues either way between the Audit and Overview and Scrutiny Committees. It

was considered that the adoption of a protocol would mitigate the risk of inappropriate referrals and inform the subsequent debate.

RESOLVED:

1. That the outcome of the discussions between the Chairman and Vice-Chairman of the Audit Committee and the Chairman of the Corporate Services Overview and Scrutiny Committee be noted.
2. That the Chairman and Vice-Chairman of the Audit Committee should meet with the Scrutiny Co-ordinating Committee at the beginning of each Municipal Year to discuss Committee work programmes and any areas of overlap to ensure that the Audit Committee does not carry out or duplicate work which is properly the responsibility of the Overview and Scrutiny Committees and that the Overview and Scrutiny Committees are aware of the work plan and role of the Audit Committee.
3. That the following protocol be adopted to manage the referral of issues either way between the Audit and Overview and Scrutiny Committees:-

In the event of the Audit Committee being minded to refer an issue to an Overview and Scrutiny Committee (or vice-versa), the issue, the reasons for referral and the desired outcome must be clearly understood, and specified in the minutes and the reference.

77. REFERENCE FROM THE CABINET - PROPERTY INVESTMENT GOVERNANCE ARRANGEMENTS

The Committee considered the response of the Cabinet to its reference seeking assurances that the governance arrangements relating to property investment are sound and that controls are in place to minimise the risks to the Council associated with this new area of activity. It was pointed out that there was an ambiguity in that although the reference stated that the Member Advisory Panel relating to Property Investment had no decision making powers, the Panel did, in accordance with its terms of reference, have the power to reject proposals put forward by the Officers for potential property investment.

In this connection, it was suggested that the terms of reference of both the Member Advisory Panel and the Property Investment Cabinet Committee should be amended to clarify the intention that decisions to either reject or take forward property investment proposals are to be taken by the Cabinet Committee based on the recommendation of the Advisory Panel, supported by a robust financial business case, and having specific regard to the CIPFA Code of Practice.

RESOLVED to RECOMMEND to the CABINET: That consideration be given to the amendment of the terms of reference of both the Member Advisory Panel relating to Property Investment and the Property Investment Cabinet Committee to clarify the intention that decisions to either reject or

take forward property investment proposals are to be taken by the Cabinet Committee based on the recommendation of the Advisory Panel, supported by a robust financial business case, and having specific regard to the CIPFA Code of Practice.

78. REFERENCE FROM THE CORPORATE SERVICES OVERVIEW AND SCRUTINY COMMITTEE - REVALUATION OF INVESTMENT PROPERTIES

The Committee considered the reference from the Corporate Services Overview and Scrutiny Committee seeking clarification of the reasons for its referral relating to the revaluation of investment properties and the desired outcome. It was noted that in referring the matter back, the Corporate Services Overview and Scrutiny Committee had asked that further consideration be given as to whether it was in fact properly the responsibility of the Audit Committee.

To assist Members in their consideration of this matter, the Officers explained that:-

- Valuations obtained for accounting purposes were not necessarily the same as those obtained for asset management/disposal purposes as different rules applied.
- Accounting standards required the annual revaluation of investment properties. It was accepted that the arrangements for obtaining these valuations had not gone to plan last year. 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, the assumptions made and the extent to which their 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.
- Upon receipt of a revised Letter of Representation signed by the Director of Regeneration and Communities confirming, inter alia, that the information provided to the External Valuers in order to undertake their valuations was accurate and complete, the External Auditors had issued an unqualified opinion on the 2011/12 Statement of Accounts.
- 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 valuations 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.
- Any review of the arrangements in place for obtaining valuations for asset management/disposal purposes would more appropriately be

a matter for the Corporate Services Overview and Scrutiny Committee.

Members accepted the position regarding the respective responsibilities of the Audit and Corporate Services Overview and Scrutiny Committees in relation to this matter, and asked that an update on the review of the arrangements in place for obtaining valuations for accounting purposes be reported to the next meeting of the Committee to provide an assurance that lessons have been learned and action is being taken to avoid the problems which were experienced in relation to the preparation/closing of the 2011/12 Statement of Accounts occurring in future years. The Officers confirmed that the report would cover the appointment of the External Valuers and the scope of the contract. Discussions would take place at an early date with the External Auditors to ensure that they were satisfied with the arrangements.

RESOLVED: That an update on the review of the arrangements in place for obtaining valuations for accounting purposes be reported to the next meeting of the Committee to provide an assurance that lessons have been learned and action is being taken to avoid the problems which were experienced in relation to the preparation/closing of the 2011/12 Statement of Accounts occurring in future years.

79. TREASURY MANAGEMENT STRATEGY 2013/14

In accordance with CIPFA's Code of Practice on Treasury Management, the Committee considered the report of the Head of Finance and Customer Services setting out the draft Treasury Management Strategy for 2013/14, including the Treasury and Prudential Indicators.

The Committee asked a number of questions of the Officers relating to the implications of any proposal to borrow for purposes other than the acquisition of commercial property assets to generate additional income to support the Capital Programme; the calculation of the Minimum Revenue Provision; the arrangements in place for monitoring and responding to changes in the credit ratings of financial institutions and the knowledge and skills available within the Finance Team to deal with these matters; and the risks associated with the appointment of external fund managers.

The Committee indicated that it was satisfied with the adequacy of the draft Treasury Management Strategy for 2013/14.

RESOLVED: That the Cabinet be recommended to agree the draft Treasury Management Strategy for 2013/14, as set out in the report of the Head of Finance and Customer Services, for submission to the Council.

80. BUDGET STRATEGY 2013/14 ONWARDS - RISK ASSESSMENT

The Committee considered the report of the Head of Finance and Customer Services setting out the risk assessment of the budget strategy 2013/14 onwards. It was noted that the risk assessment considered operational risks rather than strategic risks and that the actions to

mitigate these risks formed part of the Finance Section's service plan for 2013/14. The highest risks in terms of both likelihood and impact related to the possible failure to deliver expected income levels from fees and charges due to falling demand in the current economic climate and the potential loss to the Collection Fund due to the non-collection of taxes as a result of the significant changes in 2013/14 that would affect collection rates.

In response to questions by Members, the Head of Audit Partnership confirmed that it was proposed to arrange a training session for Members on the principles of risk management, including strategic risk.

The Committee indicated that it was impressed with the risk analysis of the budget strategy 2013/14 onwards, considered the approach to be thorough and fit for purpose, and would not wish to see any amendments to the document as presented.

RESOLVED: That the Cabinet be recommended to agree, without amendment, the risk assessment of the budget strategy for 2013/14 onwards as set out in Appendix C to the report of the Head of Finance and Customer Services.

81. DRAFT STRATEGIC RISK REGISTER

The Committee considered the report of the Head of Audit Partnership setting out the first draft of the Strategic Risk Register. It was noted that the document had been considered at an informal meeting of the Cabinet and the Corporate Leadership Team earlier that day. The session had been facilitated by a representative of Zurich Risk Engineering and the Chairman of the Audit Committee had been in attendance. The Group had agreed that the six strategic risk areas which had been identified were the correct ones and that no significant strategic risks had been missed. The Group had also agreed that it would be helpful if the relevant Cabinet Members could take joint ownership of the risks with the Officers. A number of changes were made to the wording, adding to the vulnerabilities and triggers shown. Some additional consequences were identified, and would be added to the Register, but on the whole the Group endorsed the scoring shown for the likelihood of each strategic risk occurring and the potential impact. The Risk Register would be amended to reflect these changes and then the document would be reported to the Cabinet on 13 February 2013 for adoption. Risk owners would then be asked to complete action plans setting out how the risks would be managed and mitigated where possible. The updated Risk Register, including the action plans, would be reported to the Committee in March. It was hoped that this would provide the necessary assurances to the Committee in terms of the effective development and operation of risk management.

In response to questions by Members about the mitigation of risks associated with political change at a national or local level, the Officers explained that this related to the management of the impact of any

political change which could lead to a significant, unforeseen change in policy direction and the re-alignment of resources.

RESOLVED: That the first draft of the Strategic Risk Register be noted with the proviso that the submission of action plans with the updated version of the document to the next meeting of the Committee should assist Members in their understanding and provide the necessary assurance that the risks which have been identified are being managed effectively.

82. AUDIT COMMITTEE WORK PROGRAMME 2012/13

RESOLVED: That the Audit Committee Work Programme 2012/13 be noted and amended to reflect decisions made at this meeting.

83. 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

Matters Arising from the Minutes of the Meeting Held on 26 November 2012 – Minute 65 - Maidstone Museum East Wing Project Review - Update	3 - Financial/Business Affairs 5 - Legal Professional Privilege/Legal Proceedings
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84. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 26 NOVEMBER 2012 - MINUTE 65 - MAIDSTONE MUSEUM EAST WING PROJECT REVIEW - UPDATE

The Director of Regeneration and Communities updated the Committee on the position with regard to the actions being taken in relation to the Maidstone Museum East Wing extension construction project. The update 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. In response to questions by Members, the Director of Regeneration and Communities confirmed that a breakdown of the claim in relation to inaccurate surveying would be circulated to all Members of the Committee.

RESOLVED: That the report be noted.

85. DURATION OF MEETING

6.30 p.m. to 8.55 p.m.