

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 18 JULY 2011

Present: **Councillor Nelson-Gracie (Chairman) and
Councillors Black, Butler, Daley and Field**

Also Present: **Councillor Mrs Wilson**

22. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Warner and Yates.

23. NOTIFICATION OF SUBSTITUTE MEMBERS

The following Substitute Members were noted:-

Councillor Black for Councillor Yates
Councillor Daley for Councillor Warner

24. NOTIFICATION OF VISITING MEMBERS

Councillor Mrs Wilson indicated that she was attending the meeting as an observer.

25. DISCLOSURES BY MEMBERS AND OFFICERS

Councillor Daley disclosed a personal interest in the report of the Assistant Director of Regeneration and Cultural Services relating to the Maidstone Museum East Wing extension. He stated that he was a Trustee of the Maidstone Trust which was working to secure external funding for the project.

26. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

27. EXEMPT ITEMS

RESOLVED: That the items on the agenda be taken in public as proposed except that any questions relating to delays in the Maidstone Museum East Wing project contract programme should be taken in private as to discuss these matters in public could prejudice the Council's position in any proceedings to recover additional costs.

28. MINUTES OF THE MEETING HELD ON 6 JUNE 2011

RESOLVED: That the Minutes of the meeting held on 6 June 2011 be approved as a correct record and signed.

29. ANNUAL GOVERNANCE STATEMENT

The Committee considered the report of the Chief Executive setting out the draft Annual Governance Statement for 2010/11 to be signed by the Chief Executive and the Leader of the Council and accompany the Statement of Accounts.

The Committee asked a number of questions of the Officers relating to the arrangements for the regular review of the Strategic Risk Register and the actions arising from The Sunday Times 100 Best Companies to Work For staff survey and the Investors in People review report.

Having considered the replies to its questions, the Committee:-

RESOLVED: That the Annual Governance Statement for 2010/11 be endorsed.

30. LOCAL CODE OF CORPORATE GOVERNANCE

The Committee considered the report of the Chief Executive asking that it review and approve an amended Local Code of Corporate Governance based on a CIPFA/SOLACE publication entitled "Delivering Good Governance in Local Government". It was noted that the amended Code included the core principles and the supporting principles of Corporate Governance and detailed the current practice of the Authority in delivering good governance.

The Committee asked a number of questions of the Officers relating to the governance arrangements in respect of the Mid-Kent Improvement Partnership, including protocols for partnership working, and the production of an annual report on the activity of the scrutiny function.

Having considered the replies to its questions, the Committee:-

RESOLVED: That the amended Local Code of Corporate Governance be approved.

31. STATEMENT OF ACCOUNTS 2010/11

The Committee considered the report of the Head of Finance and Customer Services setting out the un-audited Statement of Accounts for 2010/11 which had been produced in accordance with International Financial Reporting Standards (IFRS). It was noted that:-

- Under the Accounts and Audit Regulations 2011, there was no longer a requirement for Members to approve the Statement of Accounts prior to it being submitted for external audit. Instead, the

Statement had to be signed by the Director of Regeneration and Communities, as the responsible financial officer, by 30 June and then approved by the Audit Committee by 30 September following external audit. Notwithstanding these revised arrangements, it was considered appropriate to provide an early opportunity for Members to review the Statement and ask questions.

- It was the first time that the Statement had been produced in accordance with the requirements of IFRS. Previously, the Statement was produced under UK GAAP (Generally Accepted Accounting Practice). One of the main differences was that the length of the Statement had increased to some 100 pages. This was due to the increased level of disclosure required by IFRS.
- Key messages from the Statement of Accounts included:-
 - The value of Long Term Assets had increased by £4.2m, reflecting, in the main, the value of works undertaken as part of major capital projects at the Museum and the Leisure Centre.
 - Current Assets had increased by £5.4m due to a combination of factors. Year end investments held were £12.3m higher than the previous year, but this was offset by a reduction in Short Term Debtors (£4.4m) and Assets Held for Sale (£2.6m).
 - Current Liabilities had increased by £6.8m, the most significant element of which was an increase of £5.9m in Short Term Creditors.
 - Long Term Liabilities had decreased by £31.9m, the major element of which was a £33.9m decrease in the Pension Reserve deficit which now stood at £30.3m.
 - The Usable Capital Receipts Reserve had reduced by a further £0.4m to £1.5m. The sale of the Armstrong Road Depot had generated a receipt of £3.2m, but along with previously accumulated receipts this was utilised to finance the Capital Programme for 2010/11.

The Committee asked a number of questions of the Officers relating to the possibility of producing a condensed version of the Statement of Accounts for public consumption; the use of the word "salaries" in relation to Members' Allowances; the possible deletion of the word "other" on page 59 of the Accounts; the liabilities incurred in relation to Officers made redundant as part of various structural changes and how they were accounted for; the implications of the possible reform of business rates; the basis of the reduction in the net pensions liability, the Pension Fund's investments and the representation of District Council interests on the Pension Fund Committee; the calculation of depreciation; the position with regard to contingent assets and the allowance made in the Accounts (if any); and the reconciliation of Portfolio Holder income and expenditure to the cost of services in the Comprehensive Income and Expenditure Statement.

Having considered the replies to its questions, the Committee:-

RESOLVED: That the un-audited Statement of Accounts for 2010/11, which has been produced in accordance with International Financial Reporting Standards, be noted.

32. AUDIT COMMITTEE - MEMBER TRAINING AND DEVELOPMENT

The Committee considered the report of the Head of Audit Partnership setting out a number of options for the training and development of Members/Substitute Members/Independent Members of the Audit Committee. It was noted that:-

- Local Government Improvement and Development had been commissioned jointly by Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils to undertake a peer review of their Audit Committees. The objective of the review was to allow each Audit Committee to be benchmarked against examples of best practice and thereby help the Committee to become more effective in undertaking its functions. The final report had identified six main areas of development for the Maidstone Audit Committee, one of which was that a more robust training programme was needed for Committee Members.
- The Council had agreed that no Member would be able to serve on the Committee (and the Licensing and Planning Committees) without having agreed to undertake a minimum period of training on the policies and procedures of the Committee as specified by the Committee. This training should be completed to an agreed level according to an agreed programme within an agreed time period set by the Committee for newly appointed Members and Substitute Members of the Committee. If the training had not been completed by the due date, the Member would cease to be a Member/Substitute Member of the Committee until the training had been completed.

RESOLVED:

1. That a training programme be developed for Members/Substitute Members/Independent Members of the Audit Committee based on the following:-
 - All new Members of the Committee should receive induction training.
 - The induction training should be based around the subjects set out in paragraphs 1.4.2 and 1.4.6 of the report of the Head of Audit Partnership. In view of the nature of the work of the Committee, the training should include a steer on how to interpret reports and the questions to be asked.
 - An ongoing training programme should be developed based around the topics set out in paragraphs 1.4.3 and 1.4.7 of the report.

- The co-opted Independent Member (when appointed) should receive the same training as full Members of the Committee.
 - 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.
 - Where possible, the training should be delivered over a concentrated period and in a concentrated manner (rather than as briefings prior to actual meetings of the Committee).
 - Where practical, joint training sessions should be arranged with Members of Audit Committees of other Councils.
 - Members of the Audit Committee do not wish to receive occasional briefing papers to supplement the training sessions.
2. That the induction training specified in paragraphs 1.4.2 and 1.4.6 of the report represents the minimum level of training for newly appointed Members/Substitute Members of the Committee and the Independent Member and must be completed within six months of appointment to the Committee.
 3. That consideration as to whether full Members of the Committee and the Independent Member should be required to attend a minimum percentage of the annual training provided be deferred until it is known what the training involves.
 4. That details of the training programme which is drawn up to reflect the decisions set out above should be submitted to the next meeting of the Committee.

33. MAIDSTONE MUSEUM EAST WING EXTENSION

The Committee considered the report of the Assistant Director of Regeneration and Cultural Services updating the position with regard to the remaining risks associated with the Maidstone Museum East Wing redevelopment project; these being the potential failure to secure full match funding from external sources and programme delays resulting in increased costs. The report covered the funding arrangements, the reasons for the additional delay in the contract programme and the legal position.

Funding

The Assistant Director of Regeneration and Cultural Services advised the Committee that to date £2,576,000 had been secured either in donations or pledges of financial support, including £400,000 from the Council's Capital Programme. The H R Pratt Boorman Family Foundation had made a donation of £6,000 to the Maidstone Trust which was helping to secure external funding for the project. These funds were to be used for

additional staff resources to assist with fundraising. In the meantime, the grant making trusts had been approached again and other routes in relation to local Japanese companies and notable people in Kent were being pursued. The Trust had also organised a dinner at The Carlton Club in London to promote the Museum's Japanese collections. It was hoped that this net-working event would result in the development of useful links with the Japanese business and cultural community and lead to donations which would help finance the new gallery for Japanese art and promote its use.

The Committee asked a number of questions of the Officers relating to the approach to fundraising, including the focus on the Museum's Japanese collections; the possibility of disposing of items belonging to the Museum's collections to raise funds towards the cost of the project; and the potential to organise a small touring exhibition to stimulate interest in the Museum and its collections.

Delays in the Contract Programme

The Assistant Director of Regeneration and Cultural Services advised the Committee that the anticipated completion date was now in early September. The reason for the additional delay was related to design issues concerning the ducting, the completion of the lift shaft and the laying of the wooden floor at ground level. The completion of the work was dependent on overcoming an unforeseen problem relating to the connection of the electricity supply and an amended programme was awaited. The contractor had issued a further extension of time notice relating to these issues and the Contract Administrator would determine the length of the extension of time and how responsibility for the delay was apportioned between the various parties.

The Committee asked a number of questions of the Officers relating to the risk of the contingency being over spent; the impact of the works on visitor numbers; and the arrangements for the phased opening of the extension to stimulate public interest and generate income.

Legal Position

The Assistant Director of Regeneration and Cultural Services advised the Committee that the current position with regard to the claim arising from surveying errors was that a claim letter had been sent by the Council's external solicitors to the surveying company. The company's insurers had responded asking for more details of the claim and more time to give a full response. The extra information was being collated and would be supplied. At that time, a view would be taken as to how much longer they might be given to respond.

The Committee, wishing to ask questions of the Officers relating to the delays in the Museum extension contract programme in private:-

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 in Minute 27 above, having applied the Public Interest Test:-

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

Maidstone Museum
East Wing Project – Delays in
Contract Programme

3 - Financial/Business Affairs
5 - Legal Professional
Privilege/Legal Proceedings

The Committee asked questions of the Officers relating to the reasons for the additional delay in the contract programme and the likelihood of further claims. The Committee then discussed the Council's project management arrangements and the role of the Internal Audit Team, particularly in relation to the assessment and management of risk.

RESOLVED:

1. That the position be noted and that arrangements be made for Members and Substitute Members of the Committee to have a tour of the construction site as it will help them to better understand the issues behind the programme delays.
2. That the Committee wishes to continue to receive regular updates on the Museum East Wing project; specifically, the implications of the delays in the contract programme and the legal position.

34. **DURATION OF MEETING**

6.30 p.m. to 8.40 p.m.