

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 15 JULY 2013

Present: Councillor Nelson-Gracie (Chairman) and
Councillors Black, Butler, Daley and Mrs Wilson

Also Present: Councillor Yates

**Mr Steve Golding and Mr Darren Wells –
Grant Thornton – External Auditors**

14. POSTPONEMENT OF AGENDA ITEMS

The Chairman advised the Committee that due to the length of the agenda and the fact that work was continuing on the report of the Chief Executive relating to the Annual Governance Statement 2012/13, it was proposed to postpone consideration of the following reports until a special meeting of the Committee to be held on 12 August 2013 to enable the three reports, which were connected, to be dealt with together:-

Agenda item 12 – Report of the Chief Executive – Local Code of Corporate Governance

Agenda item 13 – Report of the Head of Finance and Resources – Statement of Accounts 2012/13

This would also enable the Committee to make any recommendations regarding the Local Code of Corporate Governance and the Annual Governance Statement to the Cabinet on 14 August 2013.

RESOLVED: That consideration of the reports relating to the Local Code of Corporate Governance and the Statement of Accounts 2012/13 be postponed until a special meeting of the Committee to be held on 12 August 2013.

15. APOLOGIES FOR ABSENCE

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

16. NOTIFICATION OF SUBSTITUTE MEMBERS

The following Substitute Members were noted:-

Councillor Mrs Wilson for Councillor Warner
Councillor Yates for Councillor Butler until his arrival

17. NOTIFICATION OF VISITING MEMBERS

Councillor Yates said that upon the arrival of Councillor Butler he would revert to being a Visiting Member with a possible wish to speak on a number of items on the agenda.

18. DISCLOSURES BY MEMBERS AND OFFICERS

Councillor Daley disclosed an Other Significant Interest in the reference from the Cabinet regarding the review which had been undertaken of the Museum East Wing Extension project. He stated that he was a Director Trustee of the Maidstone Trust, the fundraising capacity of which had been used to gain external funding for the project.

19. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

20. EXEMPT ITEMS

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

21. MINUTES OF THE MEETING HELD ON 10 JUNE 2013

RESOLVED: That the Minutes of the meeting held on 10 June 2013 be approved as a correct record and signed.

22. BENEFIT FRAUD ANNUAL REPORT

The Committee considered the report of the Director of Regeneration and Communities summarising the performance of the Benefit Fraud Team during 2012/13. It was noted that:-

- The primary role of the Team was the prevention and detection of Housing Benefit and Council Tax discount fraud and to work within the Anti-Fraud Strategies.
- Referrals were received from various sources including data matching provided by the Department for Work and Pensions (DWP) and the National Fraud Initiative. In 2012/13, 484 referrals were received for Maidstone and of these 320 were raised as investigations (not 230 as set out in the report). The remainder were passed to the Compliance Officer for non-criminal informal action or to the DWP Counter Fraud Service for investigation.
- The total monetary value of fraud found through the Team was £563,594.24. The Team had also carried out an exercise with Capita Government Service, a private sector partner, in relation to Single Person discount and it was estimated that this would result in additional savings of £144,000.

- The implementation of the provisions of the Welfare Reform Act 2012 and the creation of the Single Fraud Investigation Service would impact on the Team. The DWP would be responsible for the administration of Universal Credit and it was anticipated that the process for the transfer of the investigation of fraud function would commence in October. A business case was being developed with a view to putting in place shared service arrangements to provide the resilience necessary to deliver a quality fraud investigation service in relation to the functions that would remain with the Council and to address the risks in new and emerging fraud such as discounts on empty homes.

In response to questions by Members, the Head of Revenues and Benefits Shared Service explained that in terms of trends in benefit fraud, the figures were similar year on year, but improvements in technology especially data matching meant that the Team could work with the DWP to detect fraud earlier. With regard to tenancy fraud, the Team was working with Golding Homes as the prime provider to identify high risk cases. It was too early to identify a trend following amendments to Council Tax legislation which removed certain empty property exemptions. Additional Visiting Officers were being introduced to address the ongoing risk of fraud and it was considered that the resilience to move forward would be provided through the implementation of the business case.

RESOLVED: That the performance of the Benefit Fraud Team during 2012/13 be noted.

23. AUDIT COMMITTEE - ANNUAL REPORT 2012/13

In accordance with the recommendations of the Peer Review of the Audit Committee and best practice, the Committee considered its Annual Report 2012/13.

RESOLVED:

1. That subject to the correction of a typographical error in the last sentence of the foreword, the content of the Committee's Annual Report 2012/13, attached as Appendix A to the report of the Head of Audit Partnership, be approved.
2. To RECOMMEND to the COUNCIL: That the Audit Committee's Annual Report 2012/13 (as amended), which demonstrates how the Committee has discharged its duties during 2012/13, provides assurance to the Council that important governance issues are being monitored and addressed by the Committee, and provides evidence to support the Annual Governance Statement, be noted.

24. INTERNAL AUDIT ANNUAL REPORT 2012/13

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 2012/13 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. It was noted that:-

- It was the opinion of the Head of Audit Partnership that substantial reliance could be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion covered the period from 1 April 2012 to date. The opinion on the control environment was principally formed through the results of Internal Audit work during the financial year.
- The original audit plan showed thirty six projects, but this was reduced to thirty four to acknowledge that a post within the Internal Audit Team was vacant for two months. The equivalent of thirty two significant audit projects was completed between April 2012 and March 2013 which represented the delivery of 94% of the adjusted audit plan.
- The work of the Internal Audit Team had established that for the majority (95%) of the areas examined (where an assurance opinion was given), satisfactory controls were in place at the time of the original audit. Where weaknesses had been identified, the appropriate Head of Service had since agreed the action to be taken to rectify those weaknesses.

The Committee asked a number of questions of the Officers relating to, inter alia:-

The implications, if any, of the recent management restructure which had resulted in the Head of Audit Partnership now reporting to the Director of Environment and Shared Services;

The procedures relating to the use of corporate credit cards;

The outcome of the investigations undertaken on a reciprocal basis at Tunbridge Wells Borough Council in relation to an Officer grievance and concerns that a Planning Officer had been conducting unauthorised private work;

The outcome of an investigation into a suspected security breach by a Maidstone Borough Council Benefits Officer;

The timescales for the completion of action plans to address Internal Audit recommendations;

The robustness of the procedures relating to the cancellation of parking tickets;

The action taken in response to the identification of errors in the administration of the Parish Services Scheme;

The robustness of the ICT disaster recovery plan in the context of the ICT shared service; and

The results of the annual survey of Chief Executives/Directors and Heads of Service across the four-way Internal Audit Partnership to ascertain levels of satisfaction with the quality of the Internal Audit service provided.

The Head of Audit Partnership informed the Committee that Ms Jennifer Daughtry, Audit Manager, would be leaving the Council to take up an appointment elsewhere.

RESOLVED:

1. That the Head of Audit Partnership's opinion that substantial reliance can be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control be noted.
2. That the results of the work of the Internal Audit Team over the period April 2012 to March 2013, as shown in the report of the Head of Audit Partnership and the Appendices to the report, and that this is the prime evidence source for the Head of Audit Partnership's opinion be noted.
3. That it be agreed that the summary of the Internal Audit work and the other matters referred to in the report of the Head of Audit Partnership support "the opinion" and that the report can be used to inform the Annual Governance Statement for 2012/13.
4. That the improvements in control that occur as a result of the audit process be noted.
5. That the Committee is satisfied that the Council's Internal Audit service is effective.
6. That Ms Daughtry be thanked for her significant contribution to the work of the Internal Audit Team over the years.

Note: Councillor Butler entered the meeting during consideration of this report (6.50 p.m.) and Councillor Yates reverted to being a Visiting Member.

25. AUDIT COMMITTEE - MEMBER SKILLS

The Committee considered the report of the Head of Audit Partnership concerning the adoption of a skills matrix to help inform the selection process for the Committee and identify training needs for new and existing Members. It was noted that the adoption of the matrix would allow each Member of the Committee and named Substitutes to complete a self assessment against a range of skills and experience. The results of

the self assessment would be used to develop an appropriate training programme.

In response to questions, the Head of Audit Partnership said that the questions had been extracted from a publication by the National Audit Office called "The Audit Committee Self-Assessment Checklist" published in 2012 and from the "CIPFA Guidance for Audit Committees" published in 2005. He would circulate copies of both publications and a short briefing paper on the specific aspect of Audit Committee training to all Members and Substitute Members of the Committee.

The Committee supported the introduction of the skills matrix subject to the deletion of the reference to having an understanding of the Council's "culture" as this could be misinterpreted.

RESOLVED: That subject to the deletion of the reference to having an understanding of the Council's "culture", the skills matrix attached as Appendix 1 to the report of the Head of Audit Partnership be adopted and used to inform the Committee's training programme.

26. LOCAL CODE OF CORPORATE GOVERNANCE

See Minute 14 above.

27. STATEMENT OF ACCOUNTS 2012/13

See Minute 14 above.

28. TREASURY MANAGEMENT ANNUAL REPORT 2012/13

The Committee considered the report of the Head of Finance and Resources setting out details of the activities of the Treasury Management function for the 2012/13 financial year. It was noted that:-

- The average rate of interest received on the Council's investments over the period was 1.17% compared to a forecast level of 1.0%. Due to additional resources being available for investment during the year and the correction of a mis-stated interest accrual from 2011/12 investment income for 2012/13 was £400,000 against a budget of £250,000.
- In terms of outcomes, all investments bar one had been on a short term basis (less than one year), including £3m invested with Lloyds TSB (part nationalised bank) for 346 days at a rate of 3.0%. £2m of core cash funds were invested for 367 days also with Lloyds TSB at a rate of 2.85%. The Bank was currently offering a rate of 1.03%.
- There had been no borrowing during 2012/13 and investments had remained within the group limits set during the year. The balance of investments as at 31 March 2013 was £13.520m.

In response to a question by a Member, the Head of Finance and Resources said that the Treasury Management Strategy did not allow investments in equities, the main consideration being the security of the original capital invested. He would look into whether local Councils were allowed to speculate in the equity markets.

RESOLVED:

1. That the review of the financial year 2012/13 which has been compiled in accordance with the Code of Practice on Treasury Management, as adopted by the Authority, be noted.
2. That no amendments are necessary to the current Treasury Management Strategy as a result of the review of activities in 2012/13.

29. EXTERNAL AUDITOR'S AUDIT PLAN 2012/13

The Committee considered the report of the Head of Finance and Resources setting out details of the External Auditor's Audit Plan for 2012/13 and of the anticipated audit fee. It was noted that the plan was risk based and had been developed following consideration of both local and national risks and the audit work completed to date. The anticipated audit fee was £84,000 which covered the audit of the Statement of Accounts and Grant Certification work.

In response to a question by a Member, the External Auditors confirmed that the audit would address the risk that revenue might be mis-stated due to fraudulent transactions.

RESOLVED: That the content of the External Auditor's Audit Plan for 2012/13, attached as Appendix A to the report of the Head of Finance and Resources, be noted.

30. AUDIT COMMITTEE PROGRESS REPORT - JULY 2013

The Committee considered the report of the External Auditor on the progress to date against the 2012/13 Audit Plan. It was noted that in general the progress of the External Auditor was in line with the original Audit Plan.

RESOLVED: That the External Auditor's progress report, attached as Appendix A to the report of the Head of Finance and Resources, be noted.

31. EXTERNAL AUDIT FEES 2013/14

The Committee considered the report of the Head of Finance and Resources setting out details of the planned external audit fees for 2013/14. It was noted that the main audit fee had been set at £66,400 which was the same as the fee for 2012/13. In addition, the estimated fee for the Grant Certification work had been set at £17,300 which compared to £17,600 for 2012/13.

RESOLVED: That the proposed external audit fee of £66,400 for the 2013/14 audit be noted.

32. 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 12A and
Brief Description**

Reference from the Cabinet – Museum East Wing Project Review	1 – Individual 3 – Financial/Business Affairs
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33. MUSEUM EAST WING PROJECT REVIEW

Having disclosed an Other Significant Interest, Councillor Daley was not present when this item was discussed.

The Committee considered a reference from the Cabinet updating the position with regard to the review which had been undertaken of the Museum East Wing Extension project. It was noted that various actions had been taken already to ensure good procurement, project and contractor management arrangements for the future and further actions would be taken in the light of lessons learned through the post event review and investigation. The Cabinet had agreed that the additional cost of the scheme compared to the original cost plan should be funded from balances, and had put in place arrangements to redress the consequences of the project in terms of the opportunity cost for the wider capital programme.

In response to questions by Members the Officers confirmed that the robustness of the new project management arrangements could be tested through the Internal Audit process and that a specific requirement to demonstrate the availability of sufficient funding in advance of commencement of work on capital projects was introduced into the Medium Term Financial Strategy 2011/12.

The Committee noted the outcome of the review of the Museum East Wing Extension project and the actions taken/to be taken in the light of lessons learned, but sounded a note of caution as to the reliability and impact of the arrangements to redress the consequences of the project in terms of the opportunity cost for the wider capital programme.

RESOLVED: That the outcome of the review of the Museum East Wing Extension project and the actions taken/to be taken in the light of lessons learned be noted, and that the Officers be requested to report back to the Committee in twelve months' time with an update on the impact and

success of the arrangements to redress the consequences of the project in terms of the opportunity cost for the wider capital programme.

34. DURATION OF MEETING

6.30 p.m. to 8.10 p.m.