

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 26 JANUARY 2015

Present: Councillor Black (Chairman) and
Councillors Daley, English and Perry

Also Present: Councillors Cox and Mrs Wilson

Mr Keith Hosea of Grant Thornton (External Auditor)

51. **APOLOGIES FOR ABSENCE**

It was noted that apologies for absence had been received from Councillors Harper and Long.

52. **NOTIFICATION OF SUBSTITUTE MEMBERS**

It was noted that Councillor English was substituting for Councillor Long.

53. **NOTIFICATION OF VISITING MEMBERS**

Councillor Mrs Wilson indicated her wish to speak on the report of the Head of Finance and Resources relating to the risk assessment which had been undertaken of the Budget Strategy 2015/16 onwards and her possible wish to speak on the report of the Director of Regeneration and Communities relating to the Treasury Management Strategy 2015/16.

Councillor Cox was in attendance for part of the meeting as an observer.

54. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

55. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

56. **EXEMPT ITEMS**

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

57. **MINUTES OF THE MEETING HELD ON 24 NOVEMBER 2014**

RESOLVED: That the Minutes of the meeting held on 24 November 2014 be approved as a correct record and signed.

58. GRANT CLAIM CERTIFICATION

Gary Hunter, Benefits Manager, introduced the report of the Director of Regeneration and Communities summarising the outcome of the work undertaken by Grant Thornton, the External Auditor, to certify the Housing Benefits subsidy claim submitted by the Council for the financial year 2013/14. It was noted that:

- The claim related to expenditure of £46.3m.
- The testing had identified errors in two areas, affecting a relatively small number of cases and resulting in the amendment and qualification of the claim.
- The overall assurance provided through the certification work confirmed that the Council continued to have good systems in place to ensure the accuracy of the grant claim.

In response to questions by a Member, the Benefits Manager confirmed that the Officers were reviewing the results of the certification work to ensure that the errors which had been identified did not occur in future years.

RESOLVED: That the assurance provided by Grant Thornton that the Council maintains a strong control environment for the preparation and monitoring of grant claims and returns be noted.

59. INTERIM INTERNAL AUDIT REPORT 2014/15

The Committee considered the report of the Head of Audit Partnership providing an update on work conducted by the Internal Audit Service during the period April 2014-December 2014 and highlighting the impact of the work undertaken through assessment of management's work in implementing agreed audit recommendations.

The report included details of the progress against the audit plan by quarter up to December 2014, the audit review findings to date in respect of assurance and non-assurance rated reports, the work being undertaken throughout the first half of the year to systematically follow-up on all audit recommendations that fell due by 30 September 2014 and the performance of the team in terms of customer satisfaction.

In response to questions by Members:

- The Head of Audit Partnership said that it had been concluded from the audit work that the Emergency Planning Service had weak controls to mitigate its risks and achieve its objectives. However, he was satisfied that an interim response from the Service was appropriate to the level of risks identified.
- The Head of Finance and Resources confirmed that, in terms of VAT management, the partial exemption position would be monitored more

often as a relatively small unexpected change in position could result in having to make repayments.

RESOLVED:

1. That the results of the work of the Internal Audit Service, as set out in the Appendix to the report of the Head of Audit Partnership, be noted.
2. That the revised operational audit plan for the rest of the year, as outlined in the Appendix to the report of the Head of Audit Partnership, be noted.

60. **BUDGET STRATEGY 2015/16 ONWARDS - RISK ASSESSMENT**

The Committee considered the report of the Head of Finance and Resources setting out the risk assessment of the budget strategy 2015/16 onwards. It was noted that:

- The risk assessment considered operational risks rather than the strategic risk (which related to failure to deliver a balanced budget) and the actions to mitigate these risks formed part of the service plan of the Finance Section for 2015/16. In some cases, the risks would also be reflected in other service plans.
- The budget strategy report to be submitted to the Cabinet would have regard to the provisional financial settlement announced on 18 December 2014.

The Committee was of the view that the risk assessment identified the appropriate risks and that the general work of the Council in monitoring the budget and the specific mitigation measures proposed were satisfactory.

However, the Committee expressed concerns in relation to the level of balances and the future planned activity of the Council. Whilst it was noted that balances were currently in excess of the agreed minimum level and that, in addition to the direct mitigations of the risks, the Council retained a specific balance of £500,000 as a resource set aside against the risk of commercial failure of one or more commercial projects, the Committee felt that the work completed on the medium term financial strategy did not suitably bring together all of the issues so that the maximum financial exposure identified for all activities could be seen in relation to the available resources that would be utilised if plans were to fail.

Arising from the discussion, the Head of Finance and Resources undertook to refer a Member's concerns about the need for investment in public conveniences in the town centre to the appropriate service managers.

RESOLVED: That the Cabinet be recommended to agree the risk assessment of the budget strategy for 2015/16 onwards as set out in

Appendix D to the report of the Head of Finance and Resources subject to the level of cover available to mitigate the risks associated with the future planned activity of the Council being reviewed and monitored.

61. TREASURY MANAGEMENT STRATEGY 2015/16

In accordance with CIPFA's Code of Practice on Treasury Management, the Committee considered the report of the Head of Finance and Resources setting out the draft Treasury Management Strategy for 2015/16, including the Treasury and Prudential Indicators.

It was noted that the total core cash figure provided in paragraph 1.7.3 of the report should read £3.8m and not £4.8m.

Ellie Dunnet, Chief Accountant, summarised the changes proposed to the existing strategy which included the following:

- Investing additional core cash of up to £3m for over 1 year if rates were to improve, with the option to use this amount to invest in property funds;
- Including overseas institutions within the Council's counterparty list where the country's sovereign rating is the same as or better than the UK's AA+ rating and the institution itself is of a high credit quality; and
- Giving the Head of Finance and Resources delegated authority to invest within the certificate of deposit market to access highly secure counterparties.

A Member suggested that a review be undertaken to see whether the Council could gain better rates for its investments by, for example, using external fund managers.

The Chief Accountant explained that, in order to protect taxpayers' money, the Council's investment priorities were:

- Security of Capital
- Liquidity
- Yield

The aim was to achieve the optimum return on investments with proper levels of security and liquidity. Funds were invested short term to maintain the liquidity required to reinvest for longer periods if rates increased. External fund managers did operate within the parameters set by local authorities, but there were varying degrees of risk. However, this option could be re-examined.

The Committee indicated that it was content to endorse the draft Treasury Management Strategy for 2015/16 for submission to the Cabinet and the Council.

RESOLVED: That the Cabinet be recommended to agree the draft Treasury Management Strategy for 2015/16, as set out in the Appendices to the report of the Director of Regeneration and Communities, for submission to the Council.

62. AUDIT COMMITTEE UPDATE - JANUARY 2015

Keith Hosea introduced the report of the External Auditor on the progress to date against the 2014/15 Audit Plan. The report also provided a summary of emerging national issues and developments that might be relevant to the Committee together with a number of challenge questions in respect of these emerging issues.

Mr Hosea drew the Committee's attention to proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. The Chief Accountant confirmed that Officers were confident that they would be able to achieve this deadline.

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

63. DURATION OF MEETING

6.30 p.m. to 7.50 p.m.