

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 20 JULY 2015

Present: Councillor McLoughlin (Chairman) and
Councillors Butler, Daley, Mrs Gooch, Perry,
Mrs Riden (Parish Council representative),
Ross and Vizzard

Also Present: Councillor Sargeant

Elizabeth Olive and Rachel Patton of
Grant Thornton (External Auditor)

1. **APOLOGIES FOR ABSENCE**

It was noted that apologies for absence had been received from Councillor Butcher (Parish Council representative).

2. **NOTIFICATION OF SUBSTITUTE MEMBERS**

There were no Substitute Members.

3. **NOTIFICATION OF VISITING MEMBERS**

Councillor Sargeant attended the meeting as an observer.

4. **ELECTION OF CHAIRMAN**

RESOLVED: That Councillor McLoughlin be elected as Chairman of the Committee for the Municipal Year 2015/16.

5. **ELECTION OF VICE-CHAIRMAN**

RESOLVED: That Councillor Mrs Gooch be elected as Vice-Chairman of the Committee for the Municipal Year 2015/16.

6. **COUNCILLOR ALISTAIR BLACK**

The Committee sat in silence for one minute in memory of Councillor Alistair Black, a Member and former Chairman of the Committee, who died on 13 July 2015.

7. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

8. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

9. EXEMPT ITEMS

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

10. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

The Committee considered the report of the Senior Solicitor (Corporate Governance) setting out details of the number of complaints received under the Members' Code of Conduct during the current Municipal Year to date. It was noted that since the Annual Meeting of the Council on 23 May 2015, there had been two new complaints which were receiving initial consideration by the Monitoring Officer. The one outstanding complaint as at 23 May 2015 had since been rejected by the Monitoring Officer (in consultation with the Independent Person) as being unfounded.

In response to questions by Members, the Senior Solicitor (Corporate Governance) confirmed that:

- Where a Hearing Panel determined that the Member against whom a complaint was made had failed to comply with the Code of Conduct, the range of possible sanctions that could be applied was limited.
- Details of alleged misconduct were kept confidential, but details of upheld complaints were published in full.

RESOLVED: That the report be noted.

11. BENEFIT FRAUD ANNUAL REPORT 2014/15

The Committee considered the report of the Benefit Fraud Manager summarising the performance of the Mid-Kent Benefit Fraud Shared Service during 2014/15 and outlining the current format of the Shared Service and the impending changes arising from the incorporation of the three partner authorities into the Single Fraud Investigation Service on 16 March 2016. In response to questions by Members, the Benefit Fraud Manager explained that:

- In terms of trends in benefit fraud, the figures were similar year on year. According to the Audit Commission report "Protecting the Public Purse", approximately 4% of activity within the benefits system was fraudulent. To mitigate the risk of over payments and to help prevent fraud entering the system, fraud awareness training was arranged for staff and there was a verification system in place.
- The Council had robust procedures to recover overpayments due to fraud and error (official and claimant) and in 2014/15 the recovery rate was 67%. However, fraudulent overpayments were far harder to

recover than overpayments caused by errors in the system, and in certain circumstances, overpayments might be written off.

- It was necessary to strike a balance between the resources allocated to tackling fraud and the amount of fraud detected i.e. the return on investment.
- With effect from 16 March 2016, responsibility for investigating allegations of benefit fraud would transfer to the Department for Work and Pensions (DWP). The Council would still be responsible for the management of housing benefit claims until Universal Credit was further expanded to encompass all claims and the Council would still have a responsibility to reduce fraud and error entering the system. It would also be the responsibility of the Council to manage and investigate Council Tax Support cases and all discounts and exemptions in relation to these cases and Non-Domestic Rates.
- A report was being prepared on the financial viability of retaining a fraud investigation service for the three partner authorities in future. As the majority of any Council Tax savings were paid to Kent County Council, an application for funding for the retention of staff had been made to the County Council, and the outcome was awaited.
- The Council had a duty to recover benefit overpayments, and this might be by way of a weekly claw-back from future benefit payments or an attachment of earnings order. The Council might also decide to take criminal proceedings in respect of fraudulent overpayments whilst having regard to the financial implications. Cautions might be offered as an alternative to prosecutions in certain cases.
- The cost of the Benefit Fraud Shared Service recharged to the Council for the year 2014/15 was £101k (of a total of £310k), based on last year's caseload.
- It was understood that the rights of any staff transferring to the DWP would be protected for at least the next three years. Transferring staff would join the Civil Service Pension Scheme and would be given the option of transferring their previous pension service into the Civil Service Pension Scheme or leaving it with their current scheme until they were entitled to receive pension payments.

RESOLVED: That the performance of the Mid-Kent Benefit Fraud Shared Service during 2014/15, the current format of the Shared Service and the impending changes arising from the incorporation of the three partner authorities into the Single Fraud Investigation Service on 16 March 2016 be noted.

12. LOCAL CODE OF CORPORATE GOVERNANCE

The Head of Policy and Communications presented an updated version of the Local Code of Corporate Governance for review and approval by the Committee prior to its submission to the Policy and Resources Committee

for agreement and then sign-off by the Leader of the Council and the Chief Executive. It was noted that amendments had been made to reflect the recent change to a Committee system of governance.

RESOLVED: That the Local Code of Corporate Governance be approved for submission to the Policy and Resources Committee for agreement prior to sign-off by the Leader of the Council and the Chief Executive.

13. ANNUAL GOVERNANCE STATEMENT 2014/15

The Head of Policy and Communications presented the draft Annual Governance Statement 2014/15 for review and approval by the Committee prior to its submission to the Policy and Resources Committee for agreement and then sign-off by the Leader of the Council and the Chief Executive. It was noted that:

- The purpose of the Annual Governance Statement was to provide assurance on the Council's governance arrangements. The Statement included a review of the effectiveness of the arrangements in place for 2014/15, and as such made reference to the Cabinet/Scrutiny system of governance, and the new governance arrangements as appropriate, and an action plan for 2015/16.
- In terms of future issues, the Corporate Governance Group, which comprised the Head of Finance and Resources, the Head of Legal Partnership (Monitoring Officer) and the Head of Policy and Communications assisted by the Head of Audit Partnership, had identified the embedding of the risk management framework recently approved by the Policy and Resources Committee, the implementation of the Communication and Engagement Strategy, the new governance arrangements and the potential disaggregation of the Planning Support Shared Service.

In response to questions by Members, the Officers explained/confirmed that:

- The reference in the Statement to a Corporate Improvement Group would be amended to read "Corporate Improvement Board".
- The Policy and Resources Committee, at its meeting held on 24 June 2015, agreed to move forward with the compilation of a comprehensive risk register. Internal Audit would be involved in supporting the process, but the ownership of the risks would remain with the lead Officers of the Council. This distinction maintained Internal Audit's independent position and was consistent with guidance on the reasonable extent of Internal Audit's role in risk management.
- The section of the Statement relating to engaging with local people and other stakeholders would be strengthened by making reference to non-statutory consultation undertaken by the Council.

- The residents' survey identified that more work needed to be done on developing residents' involvement in decision making as only 29% of respondents believed that they could influence decision making in their area. To this end, the Council had held several events to engage residents including the budget and Strategic Plan road show. The Communication and Engagement Strategy action plan for 2015/16 included actions to promote the new committee system of governance, including the introduction of a public question and answer session at meetings of the Service Committees. Consideration was also being given to how the new webcasting system could be used to involve residents in meetings.

RESOLVED: That subject to minor amendments to reflect the change in governance arrangements and to strengthen the document as set out above, the draft Annual Governance Statement for 2014/15 be approved for submission to the Policy and Resources Committee for agreement prior to sign-off by the Leader of the Council and the Chief Executive.

14. AUDIT COMMITTEE ANNUAL REPORT 2014/15

The Committee considered the Audit Committee Annual Report for 2014/15. It was noted that the report was a retrospective review of the activity of the Audit Committee and reflected that Committee's terms of reference.

The Committee agreed that the report demonstrated that the Audit Committee had effectively discharged its duties during 2014/15 and provided assurance that important internal control, governance and risk management issues were monitored and addressed by the Committee. The report also provided additional assurance to support the Annual Governance Statement.

The Committee indicated that it would wish to receive similar reports reflecting its own terms of reference in future.

Arising from its consideration of the report, the Committee was informed that the Audit Committee had agreed a Member Development Programme based on its terms of reference and the wider requirements set out in CIPFA's Audit Committee guide. Development sessions covering topics such as strategic risk management, countering fraud and the process for the appointment of external auditors had been arranged to take place immediately prior to meetings of the Committee.

The Committee felt that a comprehensive package of training was required to address Members' development needs and workflow demands and that the development sessions should be made available to all Members of the Council and the Parish Council representatives and scheduled to enable working Members to attend. The Head of Audit Partnership offered to submit a report to the September meeting of the Committee setting out a suggested series of Member development sessions.

RESOLVED:

1. That the Audit Committee Annual Report for 2014/15 be approved as a fair representation of the activity of the Committee.
2. **To RECOMMEND to the COUNCIL:** That the Audit Committee Annual Report 2014/15, which demonstrates how the Committee discharged its duties during 2014/15, provides assurance that important internal control, governance and risk management issues were monitored and addressed by the Committee, and provides assurance to support the Annual Governance Statement, be noted.
3. That the Head of Audit Partnership be requested to submit a report to the September meeting of the Committee setting out a suggested series of development sessions to address Members' needs and workflow demands.

15. INTERNAL AUDIT ANNUAL REPORT 2014/15

The Head of Audit Partnership presented the Internal Audit Annual Report 2014/15 to the Committee. In accordance with the Public Sector Internal Audit Standards, the report included:

- The annual opinion of the Head of Audit Partnership on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control;
- A summary of the work undertaken by the Internal Audit Team that supported the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards (the Standards) together with the results of the external quality assessment undertaken by the Institute of Internal Auditors.

The Head of Audit Partnership advised the Committee that he was satisfied that processes and systems across all three areas accorded with proper practice. He had reached his conclusions independently and without any undue pressure from Officers or Members. The external assessment had concluded that the Internal Audit Partnership was now fully conforming to the Standards.

In response to questions by Members, the Officers explained that:

- The Internal Audit Plan needed to be flexible and reactive to the changing risks of the Council. As the needs and priorities changed, assurance work was re-directed to ensure that it remained relevant and valuable. The Plan was, therefore, reviewed regularly, and projects were removed, added or deferred accordingly. As an example, the Land Charges project had been deferred until 2015/16 as changes in arrangements which were to be reviewed had not taken place.
- A "weak" assurance rating generally meant that the service needed to improve to consistently provide effective controls.

- In terms of the follow-up of Internal Audit recommendations, the process now was to agree dates by which actions were to be implemented rather than follow-up the whole report in one go regardless of agreements on individual recommendations. The Internal Audit Team worked throughout the year to systematically follow-up on all agreed actions as they fell due. The report included details of actions not yet due as at 31 March 2015. The actions falling due after that date would be followed-up later in the year and the findings would be included in an interim report to the Committee.
- The Internal Audit Team had looked at the Council's data protection processes, and one area that was found to be undeveloped was the policy and process under which data would be shared. The view was that the Officers could potentially inadvertently share information inappropriately for want of a clear policy and training to advise them otherwise. Internal Audit had made a number of recommendations and these were falling due now for implementation. The results of the follow-up would be reported back to the Committee later in the year.
- In terms of emergency planning, issues relating to the lack of an asset register for emergency supplies and gaps in the security and restocking of the assets held by the Council had been resolved.
- Audit work in relation to the operation of corporate credit cards had identified the need for the Council to introduce a clear procedure for the return of cards from leavers to help minimise the risk of loss from fraudulent use of ex-employees' cards. A procedure was now in place to ensure early notification of people leaving to enable corporate credit cards to be recovered.

The Committee congratulated the Head of Audit Partnership on his successful application to join the Internal Audit Standards Advisory Board as its Local Government practitioner representative, and indicated that this achievement reflected the work of the Internal Audit Team.

RESOLVED:

1. That the Committee notes the unqualified annual opinion of the Head of Audit Partnership on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control, and supporting work, and that the opinion will be used to inform the Annual Governance Statement 2014/15.
2. That the effectiveness of the Mid-Kent Audit Service and its conformance with the Public Sector Internal Audit Standards be noted.

16. **STATEMENT OF ACCOUNTS 2014/15**

The Chief Accountant presented the draft un-audited Statement of Accounts which had been produced in accordance with the CIPFA Code of

Practice on Local Authority Accounting in the United Kingdom 2014/15 and which had been signed off by the Director of Regeneration and Communities as the Officer responsible prior to being submitted for external audit.

In response to questions by Members, the Officers explained that:

- There had been an increase in the pensions liability following the annual assessment of the fund by actuaries acting on behalf of Kent County Council. There was currently a £70m deficit in the scheme against a liability of £158m. The liability was not immediate and the deficit was currently being addressed through increased contributions to the fund over the working life of employees, as assessed by the scheme actuary. Whilst the situation had worsened due to the assumptions used by the actuary, it was anticipated that improvements in future would come from changes made by the Government to the Pension Regulations, the back funding contributions being made and an upturn in the market.
- Major movements in certain parts of the Balance Sheet over the year (Cash and Cash Equivalents, Long Term Investments, Long Term Liabilities and Net Assets) reflected changes in the Treasury Management Strategy, the increase in the pensions liability and fluctuations in the value of car parks.
- In 2014/15, the amounts reported for resource allocation decisions were analysed across the Cabinet Member portfolios. In 2015/16, the note would reflect the change to the Committee system of governance. The purpose of the note, which had to be included in the accounts, was to demonstrate the difference between the Comprehensive Income and Expenditure Statement which showed the analysis of income and expenditure by service and what was reported to Members throughout the year as part of quarterly budget monitoring.

RESOLVED: That the draft unaudited Statement of Accounts for 2014/15, attached as an Appendix to the report of the Chief Accountant, be noted.

17. TREASURY MANAGEMENT ANNUAL REVIEW 2014/15

The Chief Accountant presented a report setting out details of the activities of the Treasury Management function for the 2014/15 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It was noted that:

- All investments during 2014/15 had been short term (less than one year) with the exception of £3m with Lloyds Bank for two years at a rate of 1.3% and £2m with the Royal Bank of Scotland for two years (first year rate 1%, second year rate 1.44%).

- The use of property funds was looked at during the year, but the net returns (after deducting management fees) were judged to be insufficient to justify the level of risk associated with this type of investment and the length of time that funds would have been tied up.
- The balance of investments as at 31 March 2015 was £21.1m. The average rate on Council investments during the year was 0.68%. Investment income for the year was £204k against a budget of £250k. The shortfall was due to the fact that rates had not increased as anticipated.
- The only borrowing that occurred during the year was for £1.5m for seven days at a rate of 0.28%. This was for short term liquidity reasons as a consequence of lower than expected income levels, and the total cost of the borrowing was £80.55.
- The Council's investment priorities were security of capital, liquidity and yield. The aim was to achieve the optimum return on investments with proper levels of security and liquidity.

In response to a question regarding the need for a separate investment strategy looking at opportunities for investment in commercial assets to reduce revenue costs, the Head of Finance and Resources explained that a report would be submitted to the Policy and Resources Committee presenting outturn figures for revenue and capital expenditure in 2014/15, and this included details of the acquisition of commercial assets. Going forward, the strategy in relation to the commercialisation opportunities being pursued would be redesigned and the associated risks would be reported to the Audit Committee in January 2016 as part of the risk assessment of the Medium Term Financial Strategy.

RESOLVED:

1. That the review of the financial year 2014/15 which has been compiled in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities be noted.
2. That no amendments are necessary to the current treasury management procedures as a result of the review of activities in 2014/15.

18. EXTERNAL AUDIT FEE LETTER 2015/16

The Committee considered the report of the Chief Accountant setting out details of the proposed external audit fees for 2015/16. It was noted that the main audit fee had been set at £50,475, which represented a reduction of £16,825 compared with the anticipated 2014/15 fee of £67,300. The main audit fee covered the financial statements audit and the value for money conclusion. In addition to this the indicative fee for grant claim certification work had been set at £11,418, compared with £13,910 in 2014/15. This related to the certification of the housing benefits subsidy claim.

RESOLVED: That the proposed audit fee of £61,893 for the 2015/16 audit work to be undertaken by Grant Thornton be noted.

19. EXTERNAL AUDIT UPDATE JULY 2015

The Committee considered 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.

It was noted that the following Grant Thornton reports referred to in the paper could be made available for Members and built into Member briefings:

Spreading their Wings: Building a Successful Local Authority Trading Company

Easing the Burden: The Impact of Welfare Reform on Local Government and the Social Housing Sector

A Guide to Local Authority Accounts

RESOLVED: That the External Auditor's progress report, attached as an Appendix to the report of the Chief Accountant, be noted.

20. DURATION OF MEETING

6.30 p.m. to 8.00 p.m.