

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

#### **MINUTES OF THE MEETING HELD ON 21 NOVEMBER 2016**

**Present:** Councillor McLoughlin (Chairman) and Councillors Adkinson, D Burton, Coulling (Parish Representative), Daley, English, Garland, Revell, Mrs Riden (Parish Representative) and Vizzard

**Also Present:** Matt Dean of Grant Thornton (External Auditor)

33. **APOLOGIES FOR ABSENCE**

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

34. **NOTIFICATION OF SUBSTITUTE MEMBERS**

It was noted that Councillor D Burton was substituting for Councillor Perry.

35. **URGENT ITEM**

The Chairman stated that, in his opinion, the management response to the critical recommendation arising from the Internal Audit review of Hazlitt Arts Centre Contract Monitoring should be taken as an urgent item as it provided an update on a matter to be considered at the meeting.

36. **NOTIFICATION OF VISITING MEMBERS**

There were no Visiting Members.

37. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

38. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

39. **EXEMPT ITEMS**

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

40. MINUTES OF THE MEETING HELD ON 19 SEPTEMBER 2016

**RESOLVED:** That the Minutes of the meeting held on 19 September 2016 be approved as a correct record and signed.

41. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 19 SEPTEMBER 2016

Minute 26 – Complaints Received Under the Members’ Code of Conduct

Councillor Coulling asked that the Interim Deputy Head of Legal Partnership be thanked for the information which she had provided in response to the request for clarification regarding the legal basis which required the Borough Council, as the principal authority, to deal with complaints relating to Parish Councillors.

Councillor Coulling commented that the penultimate paragraph of the advice made the position clear in that whilst it was the responsibility of the Borough Council, as the principal authority, to have arrangements in place to deal with and investigate complaints, it could not compel any person to co-operate with such an investigation. In addition, the Borough Council, as the principal authority, could not impose sanctions on a Parish Councillor and could only make recommendations to the Parish Council. It was for the Parish Council to decide, as a relevant authority, what action, if any, to take.

Minute 29 – Audited Statement of Accounts 2015/16

In response to a question by the Chairman, the Director of Finance and Business Improvement confirmed that more information relating to the collection statistics in respect of Council Tax and Business Rates would be circulated to all Members of the Committee and to the Parish Council representatives.

Minute 30 – External Audit Procurement

The Director of Finance and Business Improvement advised the Committee that a report would be submitted to the next meeting of the Council recommending that it accept Public Sector Audit Appointments’ invitation to opt-in to the sector led option for the appointment of External Auditors for five financial years starting from 1 April 2018.

42. COMMITTEE WORK PROGRAMME 2016/17

The Committee considered its work programme for 2016/17.

**RESOLVED:** That the Audit, Governance and Standards Committee work programme for 2016/17 be noted.

43. ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2016/17 - UPDATE

The Committee considered the report of the Head of Policy and Communications updating progress against the Annual Governance Statement Action Plan 2016/17. It was noted that the Action Plan was produced and published with the Annual Governance Statement for 2015/16. It focused on areas identified in the Annual Governance Statement as requiring additional action and assurance including training and communication on information management; residents' involvement in decision making; risk management; and audit reviews with weak assurance ratings. Action had been taken in all areas as set out in Appendix A to the report.

It was suggested that the section of the Action Plan relating to residents' involvement in decision making might need to be updated after the establishment of the new Member sounding board for communications.

In response to questions, the Head of Policy and Communications explained that the next Annual Governance Statement reviewing the effectiveness of the governance arrangements in place for 2016/17 would be submitted to the Committee in June/July 2017. It would include an action plan for 2017/18 arising from the review.

**RESOLVED:** That the Annual Governance Statement Action Plan 2016/17 update be noted.

Note: Councillor Revell entered the meeting during consideration of this item (6.40 p.m.).

44. INTERIM INTERNAL AUDIT & ASSURANCE REPORT

The Head of Audit Partnership introduced his report providing a mid-year update on work conducted by Mid-Kent Audit in pursuance of the audit plan approved by the Committee in March 2016. The report also included an update on 2015/16 work concluded too late for inclusion with the 2015/16 annual report in June 2016 and an update on the Mid-Kent Audit Service generally, including the most recent outturn against performance measures.

It was noted, inter alia, that:

- The audit review findings so far included a cluster of weak assurance reports which shared similar characteristics principally relating to issues around the 'second line of defence'. This covered those controls which worked to identify and correct any failures in the Council's direct management controls before they could expose the Council to risk or harm. Some of the findings so far signalled that certain of these second line controls were not working consistently or comprehensively.
- The weaknesses applied specifically to areas where the Council had entered new areas of business (such as Mote Park and Cobtree Cafés),

management of new ways of working (Section 106 Agreements) and working through third parties (Hazlitt Arts Centre Contract Monitoring).

- The overall message had been shared with senior management which had independently identified some of the key weaknesses, was already acting to address them, and would take further action in response to their own review and audit recommendations.
- In the first half of 2016/17 the Internal Audit Service had issued a critical recommendation relating to its work in reviewing Hazlitt Arts Centre Contract Monitoring; specifically, this related to the resolution of the findings of the ROSPA Fire Risk Assessment and the adequacy of some of the fire doors in the building. The initial management response to the critical recommendation and further information was now available.
- The report provided further information on recommendations arising from audit reviews, and, with one exception, the Council was on track with implementing the recommendations.
- In terms of progress in respect of reviews which had provided only weak assurance ratings, some areas had been re-assessed as sound following implementation of recommendations, but further work was required to achieve that level in other areas (such as Mote Park and Cobtree Cafés).
- Since the adoption of the Council's new Whistleblowing Policy in September 2016, a few issues had been raised, but none had resulted in serious findings.
- The Head of Audit Partnership was confident, given progress to date, that the audit plan would be completed within budgeted days.

In response to a question regarding continued discrepancies in takings reconciliations at the Mote Park and Cobtree Cafés, the Head of Audit Partnership explained that the Council had brought the Mote Park and Cobtree Café service back in-house towards the end of 2015. The in-house operation was examined by Internal Audit the following spring, and it was found that takings reconciliations were incorrect. Whilst Internal Audit was satisfied that there was no evidence of fraud, it had made a recommendation that takings reconciliations should be addressed to make them more accurate. On re-examining the service later in the year, it was found that whilst satisfactory controls were in place at the Mote Park Café, this was not the case at the Cobtree Café. Internal Audit had provided further advice on takings reconciliations and had been following up its recommendations over the last few weeks. An update on progress would be included in the next report to management.

During the ensuing discussion, reference was made to the following issues:

## Section 106 Agreements

Noting the audit review finding that there were weak controls in operation to manage the risks associated with recording and monitoring Section 106 Agreements, a Member expressed disappointment that, notwithstanding the efforts made by Councillors of all parties, concerns had been raised about monitoring spend by dates with the Council having to return funds to developers unused and further balances identified as being at risk.

The Committee was mindful that a review was being undertaken of the Planning Service and that Section 106/CIL management would form part of that review. It was pointed out that there seemed to be some reluctance on the part of some service departments to draw down and spend developer contributions, and this should form part of the discussion.

The Head of Audit Partnership undertook to look into whether details of the Section 106 contributions returned to developers unused could be circulated to all Members of the Committee and to the Parish Council representatives.

## Contract/Project Management, Monitoring and Reporting

Arising from the audit review finding that there were weak controls in operation within the service to monitor the contract for the management and operation of the Hazlitt Arts Centre, the Committee discussed the arrangements for the implementation and monitoring of contracts for outsourced services and for the management of new areas of business, having regard also to the Council's commercialisation agenda.

The Committee felt that in outsourcing services, the Council should make clear in the contract documentation precisely what was required and ensure that adequate contract monitoring and reporting procedures were in place. Failure to monitor these contracts properly was a serious issue. It was the role of Internal Audit to check that the monitoring reports were forthcoming and acted upon. Similarly project management arrangements in respect of new areas of business such as the Mote Park and Cobtree Cafés needed more attention.

The Director of Finance and Business Improvement assured Members that management took the findings of these audit reviews very seriously, and was acting to address the audit recommendations, although it would take some time before the effects showed through in audit reporting. A report could be submitted to the Committee on the progress being made on the implementation of the recommendations.

The Head of Audit Partnership advised the Committee that contract monitoring arrangements were reviewed from time to time by Internal Audit. Last year, audit reviews of the Leisure Centre and Waste Management contracts found that sound controls were in place. To provide further assurance, a report could be submitted to a future meeting setting out the findings of audit work undertaken in respect of the

top ten contracts (in terms of cost) in recent years. If the work had not yet been done, details could be provided of when it would fall due in audit planning.

In response to comments by Members as to whether the weaknesses found were indicative of a systemic issue, the Director of Finance and Business Improvement advised the Committee that he did not think that it had been established that this was the case. Some contracts were very effectively managed, but the audit review of the Hazlitt Arts Centre Contract Monitoring had identified that there were lessons to be learned in terms of the monitoring of contracts for outsourced services.

It was suggested that, in terms of lessons learned, the Officers should be seeking to ensure best practice and effectiveness in contract preparation and implementation and monitoring and reporting processes, particularly when moving to new areas of business and working through third parties.

The Committee noted the progress in achieving the 2016/17 internal audit and assurance plans and the findings so far, and asked the Officers to consider the points raised in the discussion on contract/project management, monitoring and reporting, and to report back to a future meeting with views.

**RESOLVED:**

1. That the progress in achieving the 2016/17 internal audit and assurance plans and the findings so far be noted.
2. That the Officers be requested to consider the points raised in the discussion on contract/project management, monitoring and reporting, and to report back to a future meeting with views.
3. That the Head of Audit Partnership and the Internal Audit Team be thanked for their performance and achievements to date.

45. TREASURY MANAGEMENT HALF YEARLY REVIEW 2016/17

The Committee considered the report of the Director of Finance and Business Improvement setting out details of the activities of the Treasury Management function for the first six months of the financial year 2016/17 in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities in the context of the current economic environment. It was noted that:

- The Bank of England base rate had fallen to 0.25% in August 2016. This had led to a reduction in investment returns across the board. The Council had used highly rated institutions to invest its funds and had kept all new investments during the first 6 months of 2016/17 short term (less than one year). The sum of £11.25m was held within Money Market Funds which were AAA rated funds and could be called upon instantly for meeting the Council's liabilities and to fund its capital

programme. Total investments as at 30 September 2016 amounted to £25.25m.

- The average rate of return on Council investments was 0.77%. However, with rates falling lower, this average would reduce over the year.
- Investment income for the year as at 30 September 2016 totalled £106k.
- At 31 March 2016 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was (£1.2m) negative, showing that the capital programme was affordable without recourse to borrowing. However, the Council had a forecasted CFR of £10m due to the expanded capital programme in 2016/17. As at 30 September 2016 there had been no need for the Council to borrow, due to slippage of capital expenditure into 2017/18. Furthermore, it did not appear that borrowing would be necessary to fund capital expenditure during the current year.

In response to questions, the Officers explained that:

- In terms of the Council's investment profile and rates of return, the investments with Standard Life and Federated Investors (UK) were Money Market Funds where funds were invested over a large portfolio of institutions. These were AAA rated funds and the investments were for a maximum two year term. The accounts were instant access which was why the rates of return were so low.
- The instant access investments were required due to the Council's role as billing authority in the collection of Business Rates and Council Tax, fluctuations in cash balances from these sources and payments being due to preceptors. The other investments were fixed term.
- Investments were benchmarked against the 3 month LIBOR rate plus 20 basis points. 3 month LIBOR was 0.3828% as at 30 September 2016, plus the 20 basis points making the benchmark 0.5828%. The Council was currently operating at 32 basis points above this rate, but this was unlikely to be sustainable. When the investment with the Royal Bank of Scotland, with a rate of return of 1.440%, matured in March 2017, the average rate of return would reduce considerably.
- In the event of borrowing being necessary, the rate would depend on the nature of the loan, but typically the Council would be looking at a longer term loan of between 25 to 50 years+.

**RESOLVED:**

1. That the position with regard to the Treasury Management Strategy as at 30 September 2016 be noted.

2. That no amendments to the current procedures are necessary as a result of the review which has been undertaken of the activities of the Treasury Management function in 2016/17 to date.

46. EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER

The Committee considered the External Auditor's Annual Audit Letter summarising the main findings from the work undertaken by the External Auditor for the year ended 31 March 2016. It was noted that:

- The External Auditor had given an unqualified opinion on the Council's accounts on 22 September 2016, in advance of the 30 September 2016 national deadline.
- The External Auditor was satisfied that in all significant respects the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

In response to a question regarding the references made in the Annual Audit Letter to income generation (specifically, the additional income achieved against targets and whether it was a one-off sum or an income stream that could be base budgeted for), the Director of Finance and Business Improvement explained that the budget for 2016/17 required savings of £2,178k to be identified. Of this £679k came from additional income generation, including items which did not form part of the commercialisation agenda. The Council had set a target of delivering £1m of additional income from its commercialisation agenda over the medium term, and £460k had been delivered to date. A report would be considered by the Policy and Resources Committee later in the week reviewing the progress made on commercialisation initiatives.

**RESOLVED:** That the External Auditor's Annual Audit Letter for the year ended 31 March 2016, attached as Appendix I to the report of the Director of Finance and Business Improvement, be noted.

47. EXTERNAL AUDIT UPDATE NOVEMBER 2016

The Committee considered the report of the External Auditor setting out plans for the 2016/17 audit. The report also included a summary of emerging national issues and developments of relevance to the local government sector.

**RESOLVED:** That the External Auditor's update report, attached as an Appendix to the report of the Director of Finance and Business Improvement, be noted.

48. DURATION OF MEETING

6.30 p.m. to 7.45 p.m.