

## **MAIDSTONE BOROUGH COUNCIL**

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

#### **MINUTES OF THE MEETING HELD ON 23 NOVEMBER 2015**

**Present:** Councillor Mrs Gooch (in the Chair) and Councillors Butler, Daley, Perry, Ross, Springett and Vizzard

**Also Present:** Keith Hosea of Grant Thornton (External Auditor)

32. **CHAIRMAN OF THE MEETING**

In the absence of the Chairman, the Vice-Chairman (Councillor Mrs Gooch) took the Chair.

33. **APOLOGIES FOR ABSENCE**

It was noted that apologies for absence had been received from Councillors Butcher (Parish Representative), Garland, McLoughlin and Mrs Riden (Parish Representative).

34. **NOTIFICATION OF SUBSTITUTE MEMBERS**

It was noted that Councillor Springett would be substituting for Councillor Garland. In the event, Cllr Springett was not present for all of the meeting as she was looking after a colleague who was unwell.

35. **NOTIFICATION OF VISITING MEMBERS**

There were no Visiting Members.

36. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

37. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

38. **EXEMPT ITEMS**

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

39. **MINUTES OF THE MEETING HELD ON 21 SEPTEMBER 2015**

**RESOLVED:** That the Minutes of the meeting held on 21 September 2015 be approved as a correct record and signed.

40. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 21 SEPTEMBER 2015

Minute 30 – Review of the Council’s Whistleblowing Policy

The Head of Audit Partnership reminded Members that the Chairman had requested that a report reviewing the Council’s Whistleblowing Policy be submitted to this meeting of the Committee. In correspondence with the Chairman, who was unable to attend this meeting, but would like to be present when the report was discussed, it had been agreed that the report should be submitted to the Committee in January 2016. This would provide an opportunity to expand the scope of the work to include comparative information from Ashford and Tunbridge Wells Borough Councils.

41. 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 last report to the Committee on 20 July 2015, there had been no new complaints. There were two complaints in existence as at 20 July 2015. Following consultation with the Independent Person, the Monitoring Officer found that there had been no breach of the Code of Conduct. However, a recommendation was made to the Parish Council that training be arranged for all Members to cover management of meetings and conduct of the Council.

**RESOLVED:** That the report be noted.

42. ANNUAL GOVERNANCE STATEMENT 2015/16 ACTION PLAN UPDATE

The Committee considered the report of the Head of Policy and Communications updating progress against the Annual Governance Statement 2015/16 Action Plan. It was noted that:

- Progress against the Action Plan was being monitored by the Corporate Governance Working Group.
- Since the Annual Governance Statement was approved in July 2015 to accompany the Statement of Accounts, action had been taken in all areas highlighted for further development. For example, teams across the Council had been involved in developing the corporate risk register. Common themes had been identified across services relating to financial and staffing pressures, and there would be a workshop for Members and senior Officers on 14 December 2015. Agreement had been given to the disaggregation of Tunbridge Wells Borough Council from the Mid-Kent Planning Support Shared Service, and arrangements were now in place to manage this process. A formal review of the effectiveness of the new Committee system of governance would be carried out by the Democracy Committee in the New Year. The Democracy Committee was also reviewing the process

for appointing the Mayor, and would be making recommendations to the Council. The residents' survey was underway, and the results would be shared with Members and used to inform the refresh of the Strategic Plan and the Medium Term Financial Strategy.

- Audit work had identified that emergency planning had weak controls in place to mitigate its risks and achieve its objectives and that there were weak controls in place for achieving compliance with Data Protection requirements. Action plans and implementation dates had been agreed and put in place, and sufficient progress had been made to enable the rating to be reassessed as sound in both cases.

Whilst noting that it was considered that there were no community safety implications associated with this report, a Member reiterated the need for vigilance generally in the light of recent events.

**RESOLVED:** That the update on progress against the Annual Governance Statement 2015/16 Action Plan be noted.

#### 43. MID-KENT AUDIT INTERIM INTERNAL AUDIT REPORT 2015/16

The Committee considered the report of the Head of Audit Partnership providing a mid-year update on work conducted by Mid-Kent Audit in pursuance of the audit plan agreed by the Audit Committee in March 2015 and a commentary on the broader objectives of the Internal Audit service in helping to ensure good governance at the Council. In introducing the report, the Head of Audit Partnership highlighted the following issues:

##### Safeguarding Arrangements

The Head of Audit Partnership explained that this audit review covered the specific statutory obligations the Council had under the Children Act 2004 for ensuring the safeguarding of children and vulnerable adults in its areas of responsibility. Whilst the Council did not have the same level of responsibility as an authority providing education and social services, it did have a responsibility to remain vigilant and make referrals.

It had been concluded from the audit work that there were weak controls over the Council's safeguarding arrangements. Although the Council was satisfying its statutory obligations for safeguarding, and there were no immediate concerns to report, areas had been identified where improvements were needed to provide greater resilience and to ensure safeguarding risks were being adequately managed. These included introducing a Deputy Local Authority Designated Officer to provide resilience and introducing a central database of all safeguarding referrals submitted to ensure that when issues did come to light, the Council was recording and passing on the information consistently and accurately.

The actions arising from the audit work would provide the Head of Service and the Safeguarding Working Group with the necessary support to ensure that in time the Council would be able to restore its safeguarding

arrangements to the level of effectiveness that Members would wish to see.

In terms of timeframes, the majority of the recommendations were due for implementation by not later than 31 March 2016. Some of the recommendations were quite substantial, and included the development of policies and processes. An update on implementation of the recommendations would be included in the Internal Audit Annual Report to the Committee in July 2016.

### Risk Management

The Head of Audit Partnership advised the Committee that work was underway towards establishing a comprehensive risk register covering service, project and corporate risks. To help identify the risks that could impede the Council's ability to achieve its corporate objectives, the Council had commissioned Grant Thornton to lead the risk workshop scheduled to be held on 14 December 2015.

### Mid-Kent Audit Service Update

The Head of Audit Partnership drew the Committee's attention to changes which had been made to the structure of Mid-Kent Audit to provide greater capacity at all levels of the service, but particularly at management level to increase the ability to respond rapidly to changing risks and priorities and to deliver focused strategic reviews. The revised team structure included the appointment of Russell Heppleston as Deputy Head of Audit Partnership.

In response to questions by Members, the Head of Audit Partnership explained that:

- The National Fraud Initiative (NFI) was an exercise that matched electronic data within and between public and private sector bodies to prevent and detect fraud. Matches were anomalous items in the data which potentially on investigation could identify cases of fraud or error. All matches were investigated as each match could be a potential fraud. Mid-Kent Audit would be taking on direct examination of non-benefits matches rather than just co-ordination from January 2016.
- In addition to the NFI, the Kent Intelligence Network, a local data matching service, was coming on-line now. Historically, the Council operated a Fraud team that focused on revenues and benefits and there had not been a corporate Counter Fraud team dedicated to looking at fraud in its broadest sense. He was optimistic that in the New Year, the Council could establish a corporate Counter Fraud team possibly using the skills available within Mid-Kent Audit.
- In terms of performance across the Partnership, the % of projects completed within the budgeted number of days was currently 57% against a year-end target of 60%. This was an improvement on the

outturn for 2014/15 (47%), and could be attributed to the team's ability to more accurately scope the budget for the work undertaken and to more closely scope the work to a specific number of days. There was also a tendency for the team to help Officers with Internal Audit recommendations, and this needed to be recognised in drawing up the audit plan. The team would be looking to achieve further improvements in this measure of performance and hoped to achieve nearer 100% in a few years' time.

- With regard to an attempted fraud at the Council involving the use of a "spoof" email account, spoof emails were a risk, but the Council had in place a range of additional controls to frustrate these attempts, and on this occasion these controls had worked effectively. The matter had been reported to the Police, but the amount involved and the methodology did not meet the threshold to prompt the Police to be involved.
- In terms of the Council's resilience to cyber-attack, a report had been prepared by the ICT team considering the risks. The report had concluded that the Council was adequately and proportionately protected. The Head of ICT would be asked to circulate the report to Members in order to provide a fuller explanation. These risks were also considered when the Audit Plan was being drawn up.
- The change from a Cabinet to a Committee system of governance had not made any particular difference to the way in which the Internal Audit team carried out its work. The team's primary relationship with Members was through its work with the Audit, Governance and Standards Committee.

**RESOLVED:**

1. That progress against the Internal Audit Plan 2015/16 be noted.
2. That Russell Heppleston be congratulated on his appointment as Deputy Head of Audit Partnership.
3. That the Internal Audit team be congratulated on its achievements.

44. TREASURY MANAGEMENT HALF YEARLY REVIEW 2015/16

The Committee considered the report of the Head of Finance and Resources setting out details of the activities of the Treasury Management function as at 30 September 2015 in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It was noted that:

- All new investments during the first six months of 2015/16 had been short term (less than one year). As at 30 September 2015, the Council held investments totalling £34.55m. Income generated on these investments was £116k, and the average rate of return on investments over this period was 0.75%. The Council had used highly rated institutions to invest its funds and had kept the majority of

investments under one year in case funds were needed to fund potential property purchases and to react to potential changes in market rates.

- The use of property funds was looked at during 2014/15, 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. However, due to the increase in returns, the use of property funds was being reviewed again.
- During the first six months of 2015/16, the Council had to borrow on two occasions for short term liquidity reasons at a total cost of £139.73.
- 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 questions by Members, the Accountant (Systems) explained that:

- The Council's treasury advisor, Capita Asset Services, had provided an interest rate forecast over the period December 2015 – June 2018. Capita would be reviewing the forecast in December 2015 as there were expectations of a rate increase in the USA which could have a knock on effect on predictions for the UK Bank rate.
- A key element of the 2015/16 Treasury Management Strategy was the inclusion within the Council's counter party list of overseas institutions where the country's sovereignty rating was equal to or better than the UK's AA+ rating and the institution itself was of a high credit quality. In this connection, the Council had invested £1m in the Commonwealth Bank of Australia, a highly rated institution, for a period of ten months at a rate of 0.71%.

**RESOLVED:**

1. That the mid-year review which has been undertaken of the activities of the Treasury Management function in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities 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 2015/16 to date.

45. **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 2015. It was noted that:

- The External Auditor had issued an unqualified opinion on the Council's 2014/15 financial statements and an unqualified Value for Money conclusion for 2014/15. Work on the Council's 2014/15 housing benefit subsidy claim was largely complete and a summary of the main issues would be reported to the January meeting of the Committee.
- One of the key messages from the audit work related to slippage in the capital programme. The Council spent £4.427m on capital projects in 2014/15 compared to an original estimate of £11.67m, which was a significant variance.

In response to questions by Members, the Officers explained that discussions were taking place to identify a more robust process for prioritising capital projects and delivering them within the planned timeframe to ensure the use of resources to the best effect. Quarterly budget monitoring reports were submitted to the Policy and Resources Committee to enable comparisons to be made of expenditure against the capital budget/programme throughout the year.

**RESOLVED:** That the External Auditor's Annual Audit Letter for the year ended 31 March 2015, attached as Appendix A to the report of the Head of Finance and Resources, be noted.

#### 46. AUDIT COMMITTEE UPDATE - NOVEMBER 2015

The Committee considered the report of the External Auditor on the progress to date against the 2015/16 Audit Plan. The report also included 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.

The Interim Chief Accountant drew the Committee's attention to proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. She confirmed that in preparation for this it was hoped to close the 2015/16 accounts on a certified basis by 31 May 2016 rather than 30 June 2016, with Member approval by the end of September 2016.

In response to questions by Members, the Officers/representative of the External Auditor explained that:

- It was recognised that elected Members were very busy, and at the forefront of unprecedented change, both within their own authority and as part of a wider local public sector agenda. The External Auditor was keen to support Members in their role and had teamed up with the Centre for Public Scrutiny to produce a Member training programme on governance and had published material on its website to help Members ask the right questions on subjects such as devolution and setting up successful local authority trading companies.
- In terms of the Chancellor's "devolution revolution" announcement on 5 October 2015, the Council was currently in a pooling arrangement

with other local authorities in order to minimise the levy payment due to the Government and thereby maximise the local retention of locally generated business rates. This had benefitted the Council by an additional £614k above the business rates it was allowed to retain. The pool was set for another year, but the Government could change the rules.

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

47. DURATION OF MEETING

6.30 p.m. to 7.55 p.m.