

# **MAIDSTONE BOROUGH COUNCIL**

## **AUDIT COMMITTEE**

### **MINUTES OF THE MEETING HELD ON 6 JUNE 2011**

**Present:**            **Councillor Nelson-Gracie (Chairman) and  
Councillors Butler, Daley, Field and Yates**

**Also Present:**    **Mr Steve Golding and Ms Emily Hill –  
Audit Commission**

1.    **APOLOGIES FOR ABSENCE**

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

2.    **NOTIFICATION OF SUBSTITUTE MEMBERS**

It was noted that Councillor Daley was substituting for Councillor Warner.

3.    **NOTIFICATION OF VISITING MEMBERS**

There were no Visiting Members.

4.    **ELECTION OF CHAIRMAN**

**RESOLVED:** That Councillor Nelson-Gracie be elected as Chairman of the Committee for the Municipal Year 2011/12.

5.    **ELECTION OF VICE-CHAIRMAN**

**RESOLVED:** That Councillor Butler be elected as Vice-Chairman of the Committee for the Municipal Year 2011/12.

6.    **URGENT ITEM - COMMITTEE WORK PROGRAMME**

The Chairman stated that, in his opinion, the Committee Work Programme should be taken as an urgent item to enable consideration to be given to the possible inclusion of additional topics for discussion.

7.    **DISCLOSURES BY MEMBERS AND OFFICERS**

During the discussion on matters arising from the Minutes (Part II) of the meeting held on 14 April 2011 (Maidstone Museum East Wing Development Contract), Councillor Daley disclosed a personal interest by virtue of being a Trustee of the Maidstone Trust which was trying to secure external funding for the Museum project.

8. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

9. EXEMPT ITEMS

RESOLVED:

1. That the Minutes (Part II) of the meeting held on 14 April 2011 be taken in public but the information contained therein should remain private.
2. That any matters arising from the Minutes (Part II) of the meeting held on 14 April 2011 be considered in private.

10. MINUTES (PARTS I AND II) OF THE MEETING HELD ON 14 APRIL 2011

RESOLVED: That the Minutes (Parts I and II) of the meeting held on 14 April 2011 be approved as a correct record and signed.

11. APPOINTMENT OF POLITICAL GROUP SPOKESPERSONS

RESOLVED: That the following Members be appointed as Spokespersons for their respective Political Groups for the Municipal Year 2011/12:-

Councillor Nelson-Gracie – Conservative Group  
Councillor Field – Liberal Democrat Group

12. BENEFIT FRAUD ANNUAL REPORT

The Committee considered the report of the Director of Regeneration and Communities setting out details of the performance of the Benefit Fraud Team during 2010/11. The report included an explanation of the background to the implementation of the shared service arrangements for the delivery of the counter fraud function in relation to Housing and Council Tax Benefit; the staffing structure of the Benefit Fraud and Visiting Team; the procedures and practices in place to deter, prevent and detect benefit fraud and error; the results from 2010/11; the sanctions applied depending on the offence committed and the circumstances of the case; the financial savings to the public purse; the publicity given to prosecutions; and the implications of the Welfare Reform Bill and the proposed introduction of Universal Credit. It was noted that:-

- Whilst 2010/11 had proved very challenging due to the absence of key staff through ill health and maternity leave, the service, by operating in partnership, had been better placed to manage that absence and had continued to deliver an effective deterrent to fraud and protect the public purse from abuse.
- In 2010/11 the Benefit Fraud and Visiting Team successfully prosecuted 9 cases and issued 10 administrative penalties and 8

formal cautions. The total financial saving to the public purse was £927,000.

- The Council had robust procedures to recover any overpayments of benefit and administrative penalties and the in year collection rate for benefit overpayments in 2010/11 was 82%.
- Although the Council was unable to publicise administrative penalties and cautions, the cases that did go to court were highlighted in the local press.
- The provisions of the Welfare Reform Bill and the introduction of Universal Credit would impact on the Fraud Investigation Team from 2013. It was proposed that the Department for Work and Pensions would be responsible for the administration of the new Universal Credit and the investigation of fraud would transfer from the Council to a new Counter Fraud Investigation Service that would also be operated by the Department for Work and Pensions. It was anticipated that the Housing Benefit investigation staff would have the opportunity to transfer to that new service, but the details of the arrangements had yet to be announced.

The Committee asked a number of questions of the Officers relating to, inter alia, the reaction of staff to the proposed transfer of the counter fraud function to the Counter Fraud Investigation Service to be operated by the Department for Work and Pensions; the implications of the proposed changes to the delivery of the benefit fraud function in terms of partnership working; the Council's response to consultation on the White Paper regarding Welfare Reform; whether a cost/benefit analysis had been undertaken of filling the posts temporarily vacant due to long term sickness and maternity leave; the review being undertaken of Single Person Discount for Council Tax; the interaction between the Internal Audit and the Benefit Fraud Teams; and the recovery of overpayments.

RESOLVED:

1. That the performance of the Benefit Fraud Team during 2010/11 be noted.
2. That the proposed changes to the delivery of the benefit fraud function from 2013 be noted and that the Officers be requested to submit a further report to the Committee outlining the detail of those changes when available.

13. INTERNAL AUDIT ANNUAL REPORT 2010/11

The Committee considered the report of the Head of Internal Audit Partnership setting out details of the work of the Internal Audit Team over the financial year 2010/11 and the opinion of the Head of Internal 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:

- The statutory Code of Practice for Internal Audit in Local Government in the United Kingdom required the Head of Internal Audit to provide a written report to those charged with governance, timed to support the Annual Governance Statement.
- The Accounts and Audit Regulations 2011 also required that the Council “must, at least once a year, conduct a review of the effectiveness of internal audit”. It was considered that the Internal Audit Annual Report provided evidence of the effectiveness of internal audit and the Committee was asked to treat consideration of the report as “the review”.
- It was the opinion of the Head of Internal Audit Partnership that substantial reliance could be placed on the Council’s control environment in terms of the overall adequacy and effectiveness of the controls and processes that were in place to achieve the objectives of the Council. There were no qualifications to that opinion.
- The opinion on the control environment was principally formed through the work of the Internal Audit Team but other factors had also been considered such as the results of external audit work during the year and any concerns expressed by the External Auditor; the effectiveness of the Council’s risk management arrangements; significant control breakdowns during the financial year, whether they were found by Internal Audit or not; the results of any other form of external inspection or assessment; and the effectiveness of senior management in resolving control weaknesses.
- Thirty audit projects were completed between April 2010 and March 2011 which represented 83% of the original audit plan. The shortfall was caused by a number of factors including the involvement of members of the Maidstone Team in setting up the joint ICT system across the Partnership and the long term absence of one of the auditors due to ill health. The majority of the audits had been rescheduled.
- The work of the Internal Audit Team had established that for the majority of the areas examined, substantial controls were in place. Where weaknesses had been identified, the appropriate Head of Service had agreed the action to be taken to rectify those weaknesses.
- Four audit reports where only “limited” control assurances were found to be in place had not been the subject of follow up audits at the end of the financial year. Of these, a follow up review of Control of Capital Contracts (Crematorium) had now confirmed that the assurance assessment had improved to “substantial”.

- The Internal Audit Partnership had provided an improved service while making significant financial savings. For Maidstone this meant reduced annual costs of £52,000 compared with the previous arrangements.

The Committee asked a number of questions of the Officers relating to, inter alia, the process for identifying audit projects; the reasons for the improvement in the assurance assessment in respect of the Control of Capital Contracts (Crematorium); the lessons to be learned regarding the management of construction projects; the impact of structural reviews on audit objectives; and the role of Internal Audit in terms of service provision and complaints.

RESOLVED: That having considered the replies to its questions, the Committee:-

1. Notes the Head of Internal Audit Partnership's opinion that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes which are in place to achieve the objectives of the Council;
2. Notes that there are no qualifications to that opinion;
3. Notes that the results of the work of the Internal Audit Team are the prime evidence source for the opinion;
4. Agrees that the outcomes of the Internal Audit work and the other matters referred to in the report of the Head of Internal Audit Partnership provide evidence of a substantial level of internal control within the Council, which supports the findings and conclusions to be shown in the Annual Governance Statement for 2010/11;
5. Notes the improvements in control that occur as a result of the audit process; and
6. Agrees that it is satisfied that the Council's Internal Audit service is effective.

#### 14. THE ROLE OF THE HEAD OF INTERNAL AUDIT

The Committee considered the report of the Head of Internal Audit Partnership concerning a Statement produced by CIPFA on the role of the Head of Internal Audit (HIA) in public sector organisations. It was noted that the aim of the Statement was to clarify the role of the HIA and to raise its profile. It articulated the core responsibilities of the HIA as well as the personal and professional skills that they needed. Since the Statement was quite detailed, it was proposed that it be included in a training/briefing session to be arranged for the Committee later in the year.

The Committee asked a number of questions of the Head of Internal Audit Partnership relating to the arrangements for the proposed training/briefing session; the additional responsibilities of his particular post in terms of strategic risk management; and the reporting lines of the post.

RESOLVED:

1. That the CIPFA Statement on the role of the Head of Internal Audit be noted.
2. That it be noted that it is the intention to provide an opportunity for the Committee to consider the Statement in more detail as part of a training/briefing session to be arranged later in the year.

15. FUTURE OF LOCAL PUBLIC AUDIT - CONSULTATION

The Committee considered the report of the Head of Internal Audit Partnership concerning a consultation paper issued by the Department of Communities and Local Government setting out proposals for the future provision of external audit services to local government and other bodies following the decision to abolish the Audit Commission. It was noted that the consultation paper included proposals relating to the scope of audit, the role of Audit Committees and their composition and the audit of Parish Councils. There were 50 questions within the consultation paper and the closing date for responses was 30 June 2011. The Council could choose not to respond to the consultation, but the proposals had implications for the way that public audit would be provided to the Council. It was unlikely that the closing date for responses would be extended.

The Committee was mindful that Ashford Borough Council had compiled a draft response to the consultation and was happy to share its response.

In terms of the proposals for new Audit Committees, the Committee expressed reservations about the Government's preference for a majority of non-elected Members taking into account the difficulties likely to be experienced in recruiting people with the skills and experience required.

RESOLVED: That the draft response that Ashford Borough Council will be making to the consultation on the Future of Local Public Audit be circulated to all Members and Substitute Members of the Committee together with a request for comments on the proposals contained within the consultation paper by 17 June. This will enable the Director of Regeneration and Communities to collate the responses with the views of Management Team and the Leader of the Council/Cabinet in order that a formal response can be submitted by Maidstone Borough Council to the Department of Communities and Local Government by 30 June 2011.

16. AUDIT COMMISSION FEES 2011/12

The Committee considered the report of the Head of Finance and Customer Services concerning the proposed reduction in Audit Commission fees for the 2011/12 audit. It was noted that with the

cessation of Comprehensive Area Assessments, the Commission would have a reduced level of inspection work for 2011/12. Consequently it had announced that it intended to reduce the level of fees initially proposed for the 2011/12 audit from £116,500 to £110,666, a saving of £5,834 to the Council.

**RESOLVED:** That the proposed reduction in Audit Commission fees for the 2011/12 audit be noted.

## 17. TREASURY MANAGEMENT

The Committee considered the report of the Head of Finance and Customer Services setting out details of the activities of the Treasury Management function for the 2010/11 financial year in accordance with the CIPFA Code of Practice on Treasury Management in Local Authorities as adopted by the Council in February 2009. It was noted that:-

- The report included a summary of the objectives set out in the Strategy for 2010/11; an economic overview for 2010/11 together with an overview of the Council's revenue and capital outturn position and of its level of investments; details of compliance with treasury limits and of the Council's debt management and cash management arrangements; and an examination of current issues.
- The overall consequence of the outturn on Treasury Management activity was that slippage in both revenue and capital expenditure during the year meant levels of investment had been higher than estimated (£21m compared to the estimate of £18m) enabling additional short term investment. However, since interest rates were significantly lower than predicted (average 1.34%), the result was that income from the investments was £42,000 below the revised estimate of £400,000. Greater levels of cash available for investment did increase the difficulty of mitigating the risk posed by the placement of funds. Increasing the limits on highly rated UK and AAA rated institutions, along with Government Bodies, would be a method of mitigating this risk for the Council should levels of investment remain high. However, the duration limit for depositing funds with these institutions should not increase. The proposed amendments to the limits, extracted from the full list set out in Appendix A to the report, were as follows:-

| <b>Institution Name</b>                                | <b>Previously Agreed Limit</b> | <b>Suggested Limit</b> |
|--|--------------------------------|------------------------|
| <b>UK INSTITUTIONS MEETING MINIMUM RATING CRITERIA</b> |                                |                        |
| Bank of Scotland Plc                                   | £4,000,000                     | £5,000,000             |
| Lloyds TSB   | £4,000,000                     | £5,000,000             |
| National Westminster Bank                              | £4,000,000                     | £5,000,000             |
| Royal Bank of Scotland plc                             | £4,000,000                     | £5,000,000             |
| Ulster Bank Ltd  | £4,000,000                     | £5,000,000             |
| <b>OTHER PUBLIC BODIES</b>                             |                                |                        |
| UK Government  | £5,000,000                     | £8,000,000             |

|   |            |            |
|---|------------|------------|
| UK Local Authorities (Inc. Police & Fire Authorities) | £5,000,000 | £8,000,000 |
|---|------------|------------|

**EURO-STERLING BOND ISSUERS (AAA RATED)**

|                                   |            |            |
|-----------------------------------|------------|------------|
| European Investment Bank          | £5,000,000 | £8,000,000 |
| Inter-American Development Bank   | £5,000,000 | £8,000,000 |
| International Finance Corporation | £5,000,000 | £8,000,000 |
| European Bank for R&D             | £5,000,000 | £8,000,000 |
| International Bank for R&D        | £5,000,000 | £8,000,000 |
| GTD Export Finance Corporation    | £5,000,000 | £8,000,000 |

**MONEY MARKET FUNDS (AAA RATED)**

|                               |            |            |
|-------------------------------|------------|------------|
| Goldman Sachs                 | £5,000,000 | £8,000,000 |
| Prime Rate Capital Management | £5,000,000 | £8,000,000 |

The Committee asked a number of questions of the Officers relating to the implications of expected capital receipts; the Council's cash management arrangements; the approach to depositing funds with building societies; and the risks associated with placing funds with bank groups.

**RESOLVED:**

1. That the review of the financial year 2010/11, which has been compiled in accordance with the Code of Practice on Treasury Management as adopted by this Authority, be noted.
2. To RECOMMEND to the COUNCIL: That the proposed increase in the limits on UK banking institutions and AAA rated institutions, including Government Bodies, to enable additional funds to be deposited into highly rated institutions whilst reducing the exposure to lower rated institutions, be approved.

**18. AUDIT COMMITTEE WORK PROGRAMME**

A Member commented that concerns had been expressed about the sale of two properties in Mote Park and asked whether consideration of the disposal process might be included in the Work Programme as a topic for discussion at a future meeting of the Committee. The Head of Internal Audit Partnership advised the Committee that he was aware of the concerns which had been raised and had spoken to the Monitoring Officer who had suggested that the arrangements for the disposal of the properties might more appropriately be considered in the first instance by the relevant Overview and Scrutiny Committee. If that Committee continued to have concerns, it could refer the matter to the Audit Committee.

**19. 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 12 A and Brief Description**

Matters Arising from the Minutes (Part II) of the Meeting held on 14 April 2011- Maidstone Museum East Wing Development Contract      3 - Financial/Business Affairs  
5 - Legal Professional  
Privilege/Legal Proceedings

20. MATTERS ARISING FROM THE MINUTES (PART II) OF THE MEETING HELD ON 14 APRIL 2011

Minute 106 – Maidstone Museum East Wing Development Contract

The Officers updated the Committee on matters relating to the contractual and project management arrangements for delivering the construction of the Maidstone Museum East Wing extension, including the action being taken in relation to surveying errors. The Committee indicated that it wished to continue to receive updates on the Museum East Wing project; specifically, the legal position and the funding arrangements.

21. DURATION OF MEETING

6.30 p.m. to 8.50 p.m.