

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 14 JULY 2014

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

Also Present: Councillor Butler
Mr Keith Hosea and Mr Darren Wells of
Grant Thornton (External Auditor)

1. **APOLOGIES FOR ABSENCE**

There were no apologies for absence.

2. **NOTIFICATION OF SUBSTITUTE MEMBERS**

There were no Substitute Members.

3. **NOTIFICATION OF VISITING MEMBERS**

Councillor Butler indicated his wish to speak on the report of the Head of Audit Partnership relating to the Internal Audit Annual Report 2013/14 and the report of the Head of Finance and Resources relating to the Statement of Accounts 2013/14.

4. **ELECTION OF CHAIRMAN**

RESOLVED: That Councillor Black be elected as Chairman of the Committee for the Municipal Year 2014/15.

5. **ELECTION OF VICE-CHAIRMAN**

RESOLVED: That Councillor Daley be elected as Vice-Chairman of the Committee for the Municipal Year 2014/15.

6. **URGENT ITEMS**

The Chairman stated that, in his opinion, the following reports should be taken as urgent items in view of the length of time until the next meeting:

- Report of the Director of Mid-Kent Shared Services – Benefit Fraud Annual Report
- Report of the Head of Finance and Resources – External Auditor’s Audit Plan 2013/14
- Report of the Head of Finance and Resources – Audit Committee Progress Report – July 2014

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. MINUTES OF THE MEETING HELD ON 24 MARCH 2014

RESOLVED: That the Minutes of the meeting held on 24 March 2014 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 2014/15:-

Councillor Perry - Conservative Group
Councillor Daley - Liberal Democrat Group
Councillor Harper - Labour Group

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 by the Committee prior to sign off by the Chief Executive and the Leader of the Council.

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

- There was no material difference between the refreshed and previous versions of the Code. Schedule 1 of the document had been reformatted to take out duplication, and the actions for delivery of the core principles had been reviewed and some amendments made.
- The Strategic Risk Register would be reviewed and refreshed alongside the new Strategic Plan for 2015-2020, and presented to the Committee for consideration.
- The Annual Report referred to in Schedule 1 to the Code would be available online, but printed copies could also be displayed and made available for collection at Council receptions and Maidstone Museum, and distributed to local libraries.
- The new Member induction had been undertaken and training for Audit Committee Members and Substitute Members was underway.

Training on the final accounts and treasury management would be provided automatically, but other training would be arranged throughout the year tailored to meet individual needs identified through a skills analysis.

- The Investors in People accreditation had been assessed by the Human Resources Team, and was deemed to be a useful tool for measuring and improving staff engagement across the Council.

RESOLVED:

1. That the updated version of the Local Code of Corporate Governance be approved for sign off by the Chief Executive and the Leader of the Council.
2. That when the new Strategic Risk Register is reported to the Committee, consideration should be given to how frequently it is monitored.
3. That the Human Resources assessment of the benefits of Investors in People accreditation be provided for consideration by the Committee.

13. **ANNUAL GOVERNANCE STATEMENT**

The Head of Policy and Communications presented the draft Annual Governance Statement for 2013/14 for review by the Committee prior to sign off by the Leader of the Council and the Chief Executive.

The Committee sought confirmation that action was being taken by management to address the issues identified by the audit of the Museum Collections which was carried out in 2013/14 and which had provided a limited level of assurance. The Officers explained that the audit recommendations would be followed up in 2014/15 and progress against the action plan would be monitored by the Corporate Governance Working Group and reported to the Committee.

RESOLVED: That the draft Annual Governance Statement for 2013/14 be approved for sign off by the Leader of the Council and the Chief Executive prior to accompanying the Statement of Accounts.

14. **BENEFIT FRAUD ANNUAL REPORT**

Mr Filmer Wellard, Investigations Manager on secondment from Swale Borough Council, presented the Benefit Fraud Annual Report which provided a summary of the achievements of the Benefit Fraud team during 2013/14 and an update on the impact of the implementation of the provisions of the Welfare Reform Act 2012 and the creation of the Single Fraud Investigation Service. It was noted that:

- The implementation of the three-way Fraud Investigation shared service (based on MKIP) would provide some resilience until the Single Fraud Investigation Service was rolled out locally. The

Department for Works and Pensions would be responsible for the administration and investigation of all welfare benefits from the date of the roll out until the introduction of Universal Credit. It was anticipated that the roll out date for the three partner authorities would be 1 March 2016.

- A business case was being prepared to determine the resources required to deliver a quality fraud investigation service in relation to the functions that would remain with local authorities after the roll out of the Single Fraud Investigation Service and to address the risks in new and emerging fraud such as discounts on empty homes and Tenancy Fraud.
- There was a risk that experienced staff might look for alternative employment prior to the implementation of the Single Fraud Investigation Service.

The Committee asked a number of questions relating to the calculation of the monetary value of benefit fraud; the treatment of administrative and claimant errors; and trends in the figures year on year.

Members felt that robust arrangements were in place for the detection of benefit fraud and the recovery of overpayments and penalties.

RESOLVED: That the report be noted.

15. AUDIT COMMITTEE ANNUAL REPORT 2013/14

The Committee considered its Annual Report to Council 2013/14.

RESOLVED:

1. That subject to minor typographical and presentational amendments and the inclusion of a Chairman's foreword, the content of the Committee's Annual Report 2013/14, attached as Appendix A to the report of the Head of Audit Partnership, be approved.
2. To RECOMMEND to the COUNCIL: That the Audit Committee's Annual Report 2013/14 (as amended), which demonstrates how the Committee has discharged its duties during 2013/14, provides assurance to the Council that important internal control, governance and risk management issues are being monitored and addressed by the Committee, and provides additional assurance to support the Annual Governance Statement, be noted.

16. INTERNAL AUDIT ANNUAL REPORT 2013/14

The Head of Audit Partnership presented the Internal Audit Annual Report 2013/14 to the Committee. The report included details of the work of the Internal Audit team over the period April 2013 to March 2014 and 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 control in the context of the Annual Governance Statement. In response to questions by Members, the Officers explained that:

- Specific follow up reports could be provided in relation to the three audit projects which had received limited assurance (Housing Options (Housing Allocations Policy), Museum Collections and Artefacts and Freedom of Information).
- In terms of the audit of the Museum Collections and Artefacts, and progress against the action plan, resource pressures and other issues had impacted on the completion of the cataloguing project. A new management team was in place and would need time to address the outstanding actions and how the service was delivered.
- There was no risk at present that one or more of the partner authorities might wish to withdraw from the Internal Audit shared service arrangements; indeed, a new partnership agreement had been drawn up that would run until 2019.
- A high level of assurance was indicative of exceptionally good performance with control arrangements of a high standard. A substantial level of assurance indicated that control arrangements were of an acceptable standard to mitigate against the risks present.

RESOLVED:

1. That the annual opinion of the Head of Audit Partnership that substantial reliance can be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, and that the opinion will be used to inform the Annual Governance Statement 2013/14, be noted.
2. That the results of the work of the Internal Audit team over the period April 2013 to March 2014, as shown in the report of the Head of Audit Partnership, and that this is the prime evidence source for the Head of Audit Partnership's opinion, be noted.
3. That the Committee agrees that an effective Internal Audit service has operated during 2013/14, and notes conformance of the service with the Public Sector Internal Audit Standards.
4. That specific follow up reports should be provided for the Committee in relation to the three audit projects which received limited assurance in 2013/14 (Housing Options (Housing Allocations Policy), Museum Collections and Artefacts and Freedom of Information).

17. INTERNAL AUDIT PROCESS REFRESH REPORT 2014/15

The Committee considered the report of the Head of Audit Partnership setting out the revised approach to undertaking and reporting the work of

Internal Audit for 2014/15. It was noted that the principal changes related to the assurance levels, recommendation ratings and process for completing and following up audit projects.

The Committee welcomed and supported the proposed changes, particularly in relation to the assurance ratings, considering the new definitions to be much clearer and easier to understand. The Committee also considered the list of audit projects to be undertaken across the Partnership in 2014/15 to represent a comprehensive package.

RESOLVED: That the revised approach to undertaking and reporting the work of Internal Audit for 2014/15 be noted.

18. STATEMENT OF ACCOUNTS 2013/14

The Senior Accountant (Client) introduced the report of the Head of Finance and Resources setting out the un-audited Statement of Accounts for 2013/14 which had been produced in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and which had been signed off by the Director of Regeneration and Communities prior to being submitted for external audit.

The Committee asked a number of questions of the Officers relating to:

- The funding of the increased deficit on the Pension Scheme;
- The difference between the annual and triennial Pension Fund valuations;
- The impact of the net pensions liability on the viability/sustainability of the Council and the mitigation of the impact through the fair apportionment of shared services across the MKIP authorities;
- The actuarial assumptions in relation to longevity;
- The results of the impairment review of the Council's asset portfolio;
- The provision for bad debts; and
- The calculation of depreciation in relation to infrastructure, community assets and assets under construction.

RESOLVED: That the unaudited Statement of Accounts for 2013/14 be noted prior to the completion of the external audit process.

19. TREASURY MANAGEMENT PERFORMANCE 2013/14

The Head of Finance and Resources presented the report of the Director of Regeneration and Communities setting out details of the activities of the Treasury Management function for the 2013/4 financial year in accordance

with CIPFA's Code of Practice on Treasury Management in Local Authorities. It was noted that:

- The balance of investments as at 31 March 2014 was £19.175m. The average interest rate for the Council's investments over the year was 0.77%. Investment income for the year was £231k compared to a budget of £250k. The shortfall was due to rates falling during the year.

A Member suggested that a review be undertaken to see whether the Council could gain better rates for its investments which, he argued, were losing value due to inflation.

The Head of Finance and Resources 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 and to fund (a) the significant transport and infrastructure improvements needed to support the Local Plan and (b) other capital projects. However, the Council's Treasury Advisers, Sector, could be asked for advice on whether the Council could achieve better rates for its investments.

RESOLVED:

1. That the review of the financial year 2013/14 which has been compiled in accordance with the Code of Practice on Treasury Management, as adopted by the Authority, be noted.
2. That a review should be undertaken to ensure that the Council is getting the maximum return possible for its investments, but no other amendments are necessary to current procedures as a result of the review of Treasury Management activities during 2013/14.

20. EXTERNAL AUDIT FEES 2014/15

The Committee considered the report of the Head of Finance and Resources setting out details of the planned external audit fees for 2014/15. It was noted that the main audit fee had been set at £66,400 which was the same as the fees set for 2012/13 and 2013/14. In addition, the estimated fee for the grant certification work had been set at £13,910.

RESOLVED: That the proposed external audit fee of £66,400 for the 2014/15 audit be noted.

21. EXTERNAL AUDITOR'S AUDIT PLAN 2013/14

The Committee considered the report of the Head of Finance and Resources setting out details of the External Auditor's Audit Plan for 2013/14 and of the anticipated audit fee. It was noted that the plan was risk based and had been developed following consideration of both local and national risks and the audit work completed to date. The anticipated audit fee was £83,700 which covered the audit of the Statement of Accounts and grant certification work.

In response to questions, Mr Wells of Grant Thornton (the External Auditor) explained that:

- The level of materiality used in performing the audit was about 2% of gross revenue expenditure. The concept of materiality to provide a level of assurance within an audit fee was well established and 2% was the benchmark used when considering the cumulative impact of errors identified and the risk.
- Outturn against budget would be reviewed as a risk assessment and unusual budget variances would be built into audit planning.
- It was accepted that there was a need to develop within the Audit Plan consideration of the impact of the provisions of the Localism Act on the way in which the Council conducts its business in future, including working in partnership with community groups and Parish Councils.

RESOLVED: That the content of the External Auditor's Audit Plan for 2013/14, attached as Appendix A to the report of the Head of Finance and Resources, be noted.

22. AUDIT COMMITTEE PROGRESS REPORT - JULY 2014

The Committee considered the report of the External Auditor on the progress to date against the 2013/14 Audit Plan. It was noted that in general the progress of the External Auditor was in line with the original 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.

Members said that they had found the challenge questions useful and informative.

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

23. DURATION OF MEETING

6.30 p.m. to 8.35 p.m.