

## Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **27<sup>th</sup> September 2010**

### Present:

Cllr. Wallace (Chairman);  
Cllr. Ellison (Vice-Chairman);  
Cllrs. Davison, Feacey, Holland, Koowaree, Link, Taylor

In accordance with Procedure Rule 1.2 (iii) Councillors Davison and Holland attended as Substitute Members Councillors Mrs Laughton and Smith respectively.

### Apologies:

Cllrs. Mrs Laughton, Smith.

### Also Present:

Cllr. Wood

Deputy Chief Executive, Head of Internal Audit Partnership, Audit Manager, Finance Manager, Investigation & Visiting Manager, Support Manager (Revenues & Benefits), Performance & Improvement Officer, Senior Member Services & Scrutiny Support Officer.

Andy Mack, Debbie Moorhouse, Kevin Long – Audit Commission.

## 184 Declarations of Interest

Councillor	Interest	Minute No.
Wallace	Code of Conduct – Personal but not Prejudicial – Council appointed representative on the Ashford Leisure Trust	188

## 185 Minutes

### Resolved:

**That the Minutes of the Meeting of this Committee held on the 29<sup>th</sup> June 2010 be approved and confirmed as a correct record.**

## **186 2009/10 Accounts and the External Auditor's Annual Governance Report**

The report presented the District Auditor's Annual Governance Report. The audit had identified some errors that had now been corrected hence the Statement of Accounts was fully re-presented to the Committee. The adjustments were of a 'classification' nature or changes to 'disclosure notes' so there were no implications for the overall financial position or standing of the Council. The District Auditor had therefore issued an unqualified opinion on the Accounts and Andy Mack was present to introduce the report and take questions. There was a Post Balance Sheet Event that had arisen from the Coalition Government's Emergency Budget announcing a review of public sector pension schemes. A note had been included to explain this and its possible impacts. There were no adjustments to the accounts that flowed from this disclosure. A revised table for Note 3 of the Statement of Accounts had also been tabled for Members' attention.

Andy Mack said that from the Audit Commission's point of view, this was an extremely positive report and represented significant improvement for the Council this year. He ran through the amendments to the draft accounts and the unadjusted misstatements in the accounts which were minor in nature and did not merit special attention. The single most complex issue had been the adoption of International Financial Reporting Standards (IFRS) for PFI Accounting as this had come in a year earlier than the rest of IFRS and was something that most other Councils had not had to deal with. The impact of this was complex and the Council had dealt with this well and it bode well for the full introduction of IFRS next year. The amendments that were needed would not have a major impact, but did have to be reported.

The Finance Manager said that he and his team were very pleased with the outcome of the audit and very few amendments had been needed. The majority surrounded the need to re-value all fixed assets, which was a tricky job and one that the Council had generally got right.

The Committee then ran through the Appendices to the report and the following responses were given to questions/comments: -

- It was clear that the Council's 'direction of travel' with regard to the Accounts was positive and there were signs of continuous improvement. In terms of next year, all Districts would need to look at the presentation of their Accounts with regards to IFRS requirements, but there was confidence that Ashford was on target. A 'wash up' meeting had been arranged between the External Auditors and the Finance Manager and his team, and it may be useful to report back to the Committee following that meeting, to start the process for next year. This was agreed for the December meeting.
- Related Party Transaction return forms had still not been received from three Councillors and one Officer. The Committee agreed that a letter should be sent to the three Members from the Chairman of this Committee urging them to return their forms.

- The Post Balance Sheet Event related to the announcement of a comprehensive review of Public Sector Pensions including the Local Government Pension Scheme. It had been announced that from April 2011 public sector pension increases would be based on the Consumer Price Index instead of the Retail Price Index. This change had been deemed a non adjusting post balance sheet event, which would have the effect of reducing the value of the Council's pension liabilities.

At this point of the meeting Andy Mack updated on the current position with the Government's proposals to abolish the Audit Commission. These comments will be included under the Agenda item "Audit Commission" detailed later in these Minutes.

**Resolved:**

- That**
- (i) the District Auditor's Annual Governance Report be received and noted.**
  - (ii) the Post Balance Sheet Event be noted.**
  - (iii) the amended Statement of Accounts for 2009/10 be approved.**
  - (iv) the Chief Financial Officer's Letter of Representation to the District Auditor be approved.**
  - (v) a letter be sent by the Chairman on behalf of the Committee urging the three Members who had yet to return their Related Party Transaction forms to do so as soon as possible.**

## **187 Benefit Fraud Annual Report 2009/10**

The report provided a brief introduction to the work of the Benefit Fraud and Visiting Team and set out a summary of the Team's work for the financial year 2009/10. The Investigation & Visiting Manager said she wanted to particularly highlight the preventative work that had taken place and explained that this would continue into 2010/11 along with more work with the Community Safety Unit to get out into the community and educate people about the issues associated with benefit fraud. Shared Services with Shepway District Council would also be pursued during 2010/11. She said that the report was an annual update and would come back to this Committee every June.

The following responses were given to questions/comments: -

- Money was being used at the 'front end' to prevent fraud and stop as many overpayments as possible going into the system in the first place, rather than having to claim them back later. This was seen as a much better way of managing the Service and meant that Ashford had a low level of overpayments compared to neighbouring authorities. The Investigation & Visiting Manager endeavoured to circulate comparative figures to Committee Members to put this in context.

- Fraudulent overpayments were notoriously hard to collect and the Council was reliant on anonymous intelligence from members of the public. There was the problem that people perhaps did not want to “tell tales” on their neighbours, but this was being addressed through community and educational activity. The phone line was well publicised on the website, Ashford Voice, in press articles about successful prosecutions and, currently, on the back of parking tickets. The majority of successful referrals overall, stemmed from data matching through the National Fraud Initiative Exercise or the Housing Benefit Matching Service but intelligence from members of the public was essential.
- Most sentences following successful prosecutions were community punishments and the money was normally paid back. Although the Council could not publicise all of its sanctions, those cases which went to Court were highlighted publicly through the local press, both raising the profile of the Team’s work and sending out a deterrent message.
- Sub-letting was an issue but not at the level of London Boroughs. It was an issue the Team would be looking into with Housing and there was money available from the Government to generate some publicity about this issue.

**Resolved:**

**That the content of the report be received and noted.**

## **188 Internal Audit Operational Plan 2010/11**

The report provided details of the work of the Internal Audit Team in the current financial year 2010/11.

In response to a question about how the new four-way partnership arrangement was working the Head of Internal Audit Partnership explained he was intending to submit a more detailed report on this to the Committee in December, however things were settling down well. The nature of being based over four sites had raised a number of issues around technology and Human Resources which had been challenging over the last six months, but they were now on course. The agreement to proceed had only been reached in February, so it had been a challenge to get everything in place to start on the 1<sup>st</sup> April.

In response to a question, it was explained that the audit of Grants to Outside Bodies had been delayed to 2010/11 at the request of the Head of Cultural Services. The new Grants Gateway had come into affect and was a very different approach to dealing with grants, so it had not been considered prudent to review an old system. It was very much a review of systems rather than accounting. Internal Audit did try hard to work with Managers and agree the timing of audits with them. It was mutually beneficial to find the best time for them in order to get the most out of an audit, but there was no question that audits would be cancelled at the request of Heads of Service.

With regard to the National Fraud Initiative, the biennial Audit Commission data matching exercise commencing in October 2010, the Council would handle a lot of

confidential data, but the Head of Internal Audit Partnership assured that procedures had been tightened up a lot and were as secure as they could possibly be. There was no way this data could go astray.

The Use of Consultants audit would deliberately have the widest scope and remit possible. It was important for the Council to know the overall numbers of consultants it was employing, the cost of this and if it was getting value for money.

**Resolved:**

**That the Operational Internal Audit Plan for the current financial year, 2010/11, be noted.**

## **189 Annual Governance Statement – Progress on Remediating Exceptions for 2009/10**

The report provided Members with an update on the progress that had been made so far this year in remediating the governance exceptions in the Annual Governance Statement.

**Resolved:**

**That the progress to date on resolving the governance exceptions identified in the 2009/10 Annual Governance Statement be noted.**

## **190 Corporate Performance Report (Performance Compendium)**

The report provided an updated summary to the Corporate Performance report first presented to the Executive in July. The Deputy Chief Executive explained that the intention of the report was to present Members with a single quarterly overview of corporate performance issues (including risk, audit reports, action plans etc) and any exceptions arising from those, along with an opportunity to bring to Members' attention any significant national policy issues likely to impact on the Council. With the coming adoption of the Council's Five Year Business Plan performance management arrangements were changing and the future structure of this report would be being examined. Officers would welcome feedback on what sort of content they would like to see going forward.

The Chairman said that looking forward and pre-empting risk would be just as important as looking at current performance. It was clear that there would continue to be ramifications for the Council arising from the current economic situation and he hoped Managers were already looking forward to see if they were going to be able to cope and were re-assessing risks. The Deputy Chief Executive said this was extremely relevant considering the Five Year Business Plan and the cutbacks and challenges that all Council departments would have to work with. There was concern that the economy may not recover as quickly as first hoped and in fact may go back into recession again, so issues such as the level of benefits claimants as well as the housing market could prove extremely problematic for the Council. Members and

Management Team would need to consider the management of risk very carefully and it may require a new approach which may have to also be reflected in the future make up of this report. It would be important to show in the clearest possible way that the Council was travelling in the right direction and that risks and challenges were recognised with action plans in place to deal with them.

The Portfolio Holder said he wished to flag up his comments in the report that a review of the Council's performance management systems was necessary and this would require input from Officers, Members and partners to avoid the pitfalls of the past such as the production of information for its own sake regardless of its usefulness. Both this Committee and the Overview & Scrutiny Committee in its Overview role would have a role to play in this.

The Chairman asked, given that this was the start of a review process, whether there were any particular comments at this stage. A Member said that lots of risks had been highlighted but not too much in the way of opportunities. As an optimist he hoped that going forward there may be able to be more emphasis on this in the report. The Chairman said he understood the point but it would be important to be honest about the direction of travel. This would be a point worth discussing when the structure of the report came back for more specific comments.

**Resolved:**

**That the report be received and noted and a future discussion be held as to the usefulness of the new report format and any suggestions for improvement.**

## **191 Section 106 Agreements – Developer Liabilities**

The Head of Internal Audit Partnership introduced the report which stemmed from a discussion at last Meeting of the Committee about the current economic climate and the potential for developers going out of business and leaving the Council with liabilities. After discussions with the Council's Planning and Legal Teams it had been explained that the basis of a Section 106 Agreement was that, if development does not commence then there were no contributions payable. Once a development commenced, the obligations under the 106 become unconditional. Normally the obligations to either make contributions or carry out works were linked to specific trigger points which again were normally based on the number of dwellings occupied. Those trigger points were monitored and the developer reminded of its liability. If, in the course of a development, the developer went out of business then the terms of the 106 Agreement continued and any new developer who took on an agreed development also took on the obligations agreed with the original developer. Therefore the report asked Members to note that the Section 106 process was managed to ensure that the Council would not be financially liable in the event of a business failure by a developer.

**Resolved:**

**That the report be received and noted.**

## 192 The Audit Commission

The report advised that the Government had decided to abolish the Audit Commission.

Andy Mack said that whilst there were lots of details to work through the current position was that Government proposed to abolish the Audit Commission by the end of 2012. Therefore there would be two more years of the Commission auditing the Council and the Council would then have the option to go out into the market place to procure its own auditor. It was an uncertain time for Commission staff although one option that was being considered was to set up a company to compete in the private sector. More details would emerge over the coming months and Andy Mack pledged to keep Members updated at Audit Committee Meetings. He assured that whatever happened, the Commission would “keep its eye on the ball” to ensure a smooth transition and would maintain the high quality of audit work that the Council deserved and had become used to.

The Chairman said that the appointment process for a new external auditor could be quite complex. He hoped the Council would look more widely at this with other Local Authorities in Kent. They would all have the same issues and there may be opportunities for joint working/procurement. Andy Mack explained that a new external auditor would need to be in place for the end of the financial year 2012/13 so the procurement would probably need to get underway in the next 18 months. Partnership working with neighbouring Authorities seemed a sensible way forward.

### **Resolved:**

**That the decision of the Government to seek to abolish the Audit Commission be noted.**

## 193 Report Tracker & Future Meetings

A Member said that in June 2009 he had raised the possibility that by May 2011 all of the current Committee Members may have not been returned in the Local Elections, thus losing all of the knowledge relevant to this Committee. At that time the possible appointment of an Independent Member to ensure continuity was mentioned and he asked what had happened to that suggestion. A skills and competency matrix for Committee Members and relevant training had also been mentioned. It was explained that these issues were discussed as part of the recent IDeA Peer Review and would be explored in the report back to the December Meeting of the Committee.

The Deputy Chief Executive said it was important to resurrect the programme of pre-Committee briefings. There were two meetings before the Elections so perhaps these could cover: - International Financial Reporting Standards; and an update on the Five Year Business Plan, Economic Position and Cuts Affecting Local Government. These would be added to the Future Meetings Tracker.

It was confirmed that the following extra items would be added to the Tracker for the next Meeting: -

- Statement of Accounts - Result of Wash up Meeting with Audit Commission and Starting Next Year's Accounts (Dealing with IFRS).
- Internal Audit Partnership – Update.
- Risk Management – Future Proposals.

**Resolved:**

**That subject to the comments above, the report be received and noted.**