

## **Audit Committee**

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **6<sup>th</sup> March 2012**

### **Present:**

Cllr. Clokie (Chairman);  
Cllr. Link (Vice-Chairman);

Cllrs. Marriott, Sims, Smith, Taylor, Wright.

### **Apologies:**

Cllrs. Michael, Wood.

### **Also Present:**

Head of Internal Audit Partnership, Finance Manager, Corporate Business Change & Efficiency Manager, Principal Accountant, Policy & Performance Officer, Senior Member Services & Scrutiny Support Officer.

Lynn Clayton, Daniel Woodcock – Audit Commission.

## **353 Minutes**

The Head of Internal Audit Partnership updated Members on the current position with risk management and the development of a new Strategic Risk Register for the Council. A session had been held with Officers and Members along with a Risk Consultant which had generated some initial thoughts. These would be discussed at a risk workshop scheduled for this coming Friday with the intention of drawing up the first draft version of a Strategic Risk Register and bringing that to this Committee in June 2012. It was agreed that Officers would attempt to produce a draft register as soon after the workshop as possible and circulate that to Committee Members.

In accordance with Procedure Rule 9.3 Mr Relf, a local resident spoke on the Minutes of the last Meeting. He said that at that meeting Mrs Clayton of the Audit Commission had asserted that there had been no internal or procurement fraud at Ashford Borough Council and he asked on what evidence that assertion was made? Also, at that meeting a figure of £147,000 had also been given for housing and benefit fraud and he asked how that figure had been reached, given that the National Fraud Initiative findings indicated a high percentage of fraud in this Borough. Mrs Clayton explained that the information had come from a survey completed by Local Authorities so the data had been provided by the Council itself. With regard to the figure of £147,000 housing and benefit fraud, the Finance Manager explained that this was the correct figure in terms of fraud that had been the subject of sanction or prosecution but did not include suspected fraud or fraud that had not resulted in sanction.

The Chairman said that due to the difficulties with the definition, and although the figures were quite modest in relation to the total number of benefits the Council paid out, he would like a clear update on the fraud situation as part of the report on fighting fraud that was coming to the next meeting. A Member asked if that report could also provide some benchmarking with other Councils in terms of spend on fighting fraud and how much money that generated back for the Council compared to other Authorities.

**Resolved:**

**That the Minutes of the Meeting of this Committee held on the 6<sup>th</sup> December 2011 be approved and confirmed as a correct record.**

## **354 Reports of External Auditor (Audit Commission)**

### **(a) Certification of Grant Claims – Annual Report**

Mrs Clayton introduced the report which summarised the outcome of certification work on claims for grants and subsidies and information in financial returns for the year 2010/11. Overall, there had been a low number of errors compared to other Authorities and there were two recommendations agreed for implementation. The report also outlined the fees arising from the certification work.

### **(b) Audit Commission's Proposed Audit Plan for the 2011/12 Audit**

Mr Woodcock introduced this part of the report which set out the work for the 2011/12 audit in terms of the financial statements and value for money. Two significant risks had been identified in terms of the financial statements, which were Housing Property and HRA Reform. In terms of value for money there was a risk around Business Planning. The proposed fee for the audit was £132,525 which represented a 5% reduction on the audit fee for 2010/11. In response to questions about specific actions that the Council could take to reduce its audit fee, the Finance Manager explained that these surrounded providing clear and robust financial statements as well as ensuring accurate and up to date information was provided by Housing. Over the last couple of years there had been a steady improvement in the presentation of accounts and this had been recognised by the External Auditors as it had had a positive impact on the level of work they had needed to undertake. There had been some systems problems last year which had resulted in problems in providing information from Housing, but they were hopeful they had been addressed ahead of this year. The Chairman said that as a Committee they would expect the Finance Section to continue to work as hard as they had been to keep the audit fee down to a minimum.

### **(c) Audit Commission – General Progress Report**

Mrs Clayton directed the Committee's attention to the assurances that were needed from Members for the 2011/12 audit opinion work. It was agreed that Members would feed any comments to the Chairman so there could be one collated response from the Committee. In terms of the Council's future External Audit Service, Mrs Clayton announced that Grant Thornton (UK) LLP had been awarded the contract for

the London (South), Surrey and Kent region for a five year period from 2012/13 to 2016/17. Therefore Grant Thornton would be Ashford Borough Council's new appointed External Auditor from September 2012. They would be holding a workshop during the summer to meet all of the audited bodies, but it was considered that they should be formally invited to an Audit Committee meeting (perhaps in September) to introduce themselves ahead of taking over. The Chairman considered that the way the contracts had been awarded was not in the spirit of Localism as each Council should have been given the opportunity to choose their own preferred External Auditor. He asked the Head of Internal Audit Partnership to investigate if there was any appetite amongst the four MKIP Authorities to write a letter on those terms to the Government Office who had made that decision.

**Resolved:**

**That the three reports from the External Auditor be received and noted.**

### **355 Presentation of Financial Statements**

In accordance with Procedure Rule 9.3 Mr Relf, a local resident spoke on this item. He quoted the figure from the report of approximately £5.9m for current debt and said this did not agree with the Deputy Leader's statement at the last Council Meeting when Council Tax was frozen that there was 'no debt'. He asked why this debt was associated with the Housing Revenue Account and sought an assurance that all Members were aware of the £125m debt that would be taken on to buy the Council out of the current HRA subsidy system? The Chairman said he was comfortable confirming that Councillors were aware of the debt that would be incurred by the HRA buy out. A report had been submitted to the December Cabinet explaining this to Members in some detail. The Finance Manager explained that the £5.9m figure was debt on the Housing Revenue Account, but there was no General Fund debt and it was this that the Deputy Leader had been talking about at the February Council Meeting.

The Chairman asked about the mechanics of taking out the loans associated with the HRA buy out and the transactions that were involved. Was there any risk that the bank may hold up the payment, being such a large amount, which could result in charges being incurred? The Finance Manager explained there was a slight risk, but the bank had been kept fully informed of developments and was expecting that deposit on that date. The Public Works Loan Board had also given assurances that the money would be in the Council's bank account at opening time on that date and the Council would be able to monitor that and trigger the payment out. There would be further discussions with the Council's Treasury Advisors, Arlingclose in preparation for the loan process and the Finance Manager endeavoured to involve the Chairman in those discussions. Arlingclose were completely independent with no links to banks or financial institutions and they would be giving advice and keeping an eye on the Council's portfolio right up to the transaction date.

With regard to heritage assets, the Chairman asked if it was sensible to use the insurance value, given that these were notoriously very different. The Finance Manager explained that where an actual value could be sensibly obtained that would be used, but in instances where this was impossible or simply not cost effective, they

had been advised to use insurance values and disclose that properly within the accounts. A reasonable estimate such as this was acceptable.

**Resolved:**

**That the Committee note the report and the draft accounting policy for Heritage Assets as contained at Appendix A of the report.**

## **356 Internal Audit Operational Plan 2012/13**

The Head of Internal Audit Partnership introduced his report which set out the one-year Internal Audit operational plan and asked the Committee to note the contents of that plan. It was an extract of the three year plan that had been approved by the Committee in September 2011 and the appendix to the report gave the broad headings of the subjects to be audited. These would be discussed in more detail with the individual Heads of Service. The plan currently showed a total of 28 audit projects, but this would be reduced to 24 using a risk based approach and further discussion with Heads of Service, to reflect the available auditor resources. The four areas which dropped off would be added into the following year's plan and the Committee would be informed of those.

The Chairman asked if an audit of the remaining 'leftovers' and liabilities of Ashford's Future could be factored somewhere into the plan for the coming year. The Head of Internal Audit Partnership said he would discuss the matter with the Section 151 Officer. Management Team has already considered the plan and this had not been raised, but the areas were not 'set in stone'. The Finance Manager advised that he had been delegated the Section 151 Officer duties regarding Ashford's Future because of the Deputy Chief Executive's role as Company Secretary.

In terms of the working arrangements within the Mid Kent Internal Audit Partnership, the Head of Internal Audit Partnership advised that each of the Councils had their own small on-site team, but staff did work across the four Authorities where possible and he was looking to do more of this in the future.

A Member asked if the proposed areas to be audited should be reconciled with the Strategic Risk Register when it was produced. He understood the Operational Plan and the Risk Register were two separate exercises but considered there had to be some overlap. He also wondered if there should be more examination of processes rather than systems within the audits. The Head of Internal Audit Partnership said that it was a question of terminology. They tended to refer to 'systems' but it was certainly the processes that were audited as they were the elements that were operated by individuals and where there was a need for a control. He agreed that when the Strategic Risk Register had been completed he would again look at the Audit Plan to consider whether anything had been missed.

**Resolved:**

**That the contents of the one-year Operational Internal Audit Plan be noted.**

## **357 Principles of Good Partnership Governance**

The report followed work by a small task and finish group of the Committee that had constructed a set of new partnership governance principles recommended as a framework to review the governance arrangements for significant partnership arrangements involving the Council. The purpose was to ensure those arrangements were sufficient and in the Council's and the public's interests. It proposed a review of existing arrangements and that the Committee considered the outcomes later in the year.

A Member said that during the deliberations of the task and finish group he had had some concerns about the way Members were appointed to certain outside bodies and partnerships. If they were not briefed properly beforehand or did not understand why they were at the meetings, they may 'fall in to the trap' of making erroneous comments and that could reflect badly on the Council. They may even promise things on behalf of the Council without having proper authority. Another Member said he agreed and made a wider point about feeling that the induction process for newly elected Councillors had been lacking and had left him feeling particularly unprepared for certain meetings and what he was supposed to be doing as a Councillor. The Chairman said that although outside the scope of this review, the point about outside bodies was touched upon within the report.

In terms of the principles of good partnership governance annexed to the report, it was agreed to strengthen: - Principle 2 in terms of authorising Council representatives to make decisions; Principle 8 with regard to effective communications and making an announcement at the outset of a partnership; and Principle 9 regarding exit strategies.

### **Resolved:**

- That**
- (i) subject to the comments above, the recommendations from the Committee's 'task and finish group' for a new partnership governance framework be agreed.**
  - (ii) Cabinet be consulted at its Meeting on the 12<sup>th</sup> April 2012.**
  - (iii) the Deputy Chief Executive be delegated authority in consultation with the Chairman and Vice-Chairman of this Committee, and the Head of Internal Audit Partnership, to agree any changes to the framework following Cabinet's consideration prior to reporting this Committee's recommendation to the Full Council on 19<sup>th</sup> April 2012.**
  - (iv) subject to the above, the relevant lead Members and Officers for the arrangements listed in Annex B to the report be asked to complete a review against the framework for reporting back to this Committee in September 2012.**

### **358 Annual Governance Statement – Progress on Remediating Exceptions**

The two areas for further work included in the Annual Governance Statement agreed by the Committee in June 2011 were: - a need for a review of the Council's risk management approach; and the need to review principles relating to partnership governance. Both of those matters had been addressed as part of previous agenda items at this meeting.

**Resolved:**

**That the progress to date on remediating the exceptions identified in the 2011 Annual Governance Statement be noted.**

### **359 Report Tracker and Future Meetings**

It was noted that the September 2012 Meeting of the Committee would now take place on Thursday 27<sup>th</sup> September. The Tracker would need to be updated to reflect some of the decisions taken at the Meeting.

**Resolved:**

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

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