

Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **25th June 2012**

Present:

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

Cllrs. Marriott, Sims, Taylor, Wright.

Also Present:

Deputy Chief Executive, Head of Internal Audit Partnership, Audit Partnership Manager, Investigation & Visiting Manager, Senior Member Services & Scrutiny Support Officer.

Andy Mack – Audit Commission.

50 Minutes

Resolved:

That the Minutes of the Meeting of this Committee held on the 6th March 2012 be approved and confirmed as a correct record.

51 Fraud Annual Report 2011/12

The report provided an update on the work of the Fraud and Visiting Team, set out a summary of the Team's work for the financial year 2011/12 and the team's future priorities.

The following responses were given to questions/comments: -

- Overpayments were not broken down into those that were errors and the individual categories of fraud. Much of the amount was recovered though and the presence of the Team certainly worked as a deterrent. Prevention before the event was seen as the key.
- The figure of approximately £170k fraud overpayments was relatively small when compared with other Local Authorities in Kent. Ashford had also worked with Housing and focussed quite heavily on tenancy fraud this year. There were far greater savings to be made for the Council by preventing and detecting this type of fraud.

- It was agreed that Audit Committee Members should be invited to the proposed half day training session for Managers on Fraud Risks to the Council.
- The numbers of referrals under the different categories of fraud did vary from year to year due to changes in emphasis and what was seen as a priority for the resources that the Council had. It was agreed that year on year figures could be included in future years' reports to identify changes and trends in the type of fraud that was being investigated.
- All cases were scored in terms of priority and resources. 'Rejected' referrals were those that did not score high enough to be a priority for investigation by the current staff resources.
- It was considered that an extra member of staff could prove to be a cost benefit for the Council in terms providing an opportunity to maximise income and that this possibility should be noted, although from April 2013 there would be a Single Fraud Investigation Service comprising Department of Work & Pensions, HMRC and all Local Authorities to investigate all benefit fraud. Therefore the full implications for staffing within Local Authority fraud teams were unknown.

The report explained that due to the extent of the ongoing changes it would be appropriate to report back to the Committee in the autumn, rather than leaving it until next year.

Resolved:

That the report be received and noted.

52 Strategic Risk Register

The report set out the draft Strategic Risk Register for adoption by the Council. The risks shown were 'pre-mitigation', in other words they represented the scenario that might occur should the risk not be managed. In practice, a number of controls were already in place to help prevent the scenario occurring. The risks had been allocated to 'risk owners' who were responsible for taking the necessary action to manage the risks. Management Action Plans were being completed and would be compiled to sit next to the register. The Committee was asked to endorse the Register and the process that was set out in the report for the ongoing management and reporting of the risks.

The Chairman sought clarification over the role of the Audit Committee with regard to risk as it related to the Cabinet. He considered this Committee should receive risk reports first and add their comments before they went to the Cabinet so that the Cabinet was not exposed and the comments of the Audit Committee meant something. It was agreed that this should be the way forward.

In response to a question about using the traffic light monitoring system as part of the Risk Register, the Head of Internal Audit Partnership explained that the Management Action Plans which would come back to the Committee would use the traffic light system.

Resolved:

- That**
- (i) the content of the draft Strategic Risk Register and the wording used to describe the risks be endorsed.**
 - (ii) the ownership of the identified risks be endorsed.**
 - (iii) the process for monitoring and reporting action on the risk register be agreed.**
 - (iv) the respective responsibilities for the risk management process be agreed.**

53 Audit Committee Annual Report 2011/12

The report set out the Annual Report of the activity of the Audit Committee for 2011/12. It was noted that following this meeting the Report would go on to be received and noted by the Full Council. The report was agreed subject to the correction of one small error to reflect that the Committee did not meet in early June 2012.

Resolved:

- That**
- (i) the Committee agree the format and content of the Annual Audit Committee report.**
 - (ii) the report be submitted to a meeting of the Full Council to demonstrate how the Committee has discharged its duties.**

54 Internal Audit Annual Report 2011/12

The report outlined the work of the Internal Audit Team over the financial year 2011/12 and the opinion of the Head of Internal Audit Partnership in relation to the Council's control environment, in the context of the Annual Governance Statement. It also asked the Committee to decide whether the outcomes of the Internal Audit work and the other matters referred to in the report provided evidence of a substantial level of internal control within the Authority, which would support the findings and conclusions shown in the Annual Governance Statement for 2011/12.

The Committee considered the report and the following comments were made: -

- 87.5% completion of work against the original audit plan was considered by the Audit Commission as a good performance. They looked for a minimum figure of 80-85%

- Staffing resources for Internal Audit at Ashford were at a 'de minimis' level of 2.5 FTE. More resources would allow for a broader area to be covered which could potentially lead to more savings being made across the Authority, but there was no guarantee of this. The team had got used to operating at such a level, but if resources were cut any further it would make things very difficult.
- There would be a meeting during the following week between representatives of the Management Teams of the four Kent Internal Audit Partnership Authorities to review the strategic direction of the partnership and this would inevitably look at resources.
- With regard to the Treasury Management audit, every individual transaction was checked by auditors and this also received attention from External Audit. Officers were confident that there could be no foul play in terms of the rounding up or down of figures.
- Both Members' and Officers' gifts and hospitality registers were available to the public on the transparency section of the Borough Council's website.
- There was a cost involved to the Council in terms of cashing cheques and the fee scale was per item. It was in the order of pence, but Officers would clarify the exact fee and report back to Members. Cheques had to be dealt with in a different way administratively that was not so straight forward as cash and card payments, so an additional, sometimes unquantifiable administrative cost was incurred. That was why auditors had recommended that consideration be given to discontinuing the acceptance of cheques as a method of payment at the Gateway.
- Following the limited assurance level that had been given to the audit of Data Protection, there had been a number of improvements in the physical security arrangements for the Civic Centre such as the key fob door access and a PC login screen auto lock. Members raised the issue of being advised to register themselves as Data Handlers at a cost of £35 if they held certain types of data in their role as a Councillor. Many Members had declined to do this because they did not consider the information they held was covered by the requirements of the Data Protection Act, but if there was a need to do this it was considered that the cost should be borne by the Council.
- On a wider point about data protection, a Member asked about the Authority's responsibility to nominate a Chief Privacy Officer and the wider IT controls that were in place in terms of passwords, access controls etc. This was a hot topic nationally at the moment with high profile breaches of security occurring and IT security controls should be being routinely audited. IT security and access levels were examined across all audits but this was clearly a serious issue and it was proposed that Members receive a pre-Committee briefing before the next meeting on Data Protection and IT security more specifically, particularly bearing in mind that it was the one area of significance for review as part of this year's Annual Governance Statement.

Resolved:

- That**
- (i) the Head of Internal Audit Partnership's opinion that substantial reliance can be placed on the Council's control environment be noted in terms of the overall adequacy and effectiveness of the controls and processes which are in place to achieve the objectives of the Council.**
 - (ii) it be noted that there are no qualifications to that opinion.**
 - (iii) the results of the work of the Internal Audit Team over the period April 2011 to March 2012 as shown in Appendix A to the report be noted and it be noted that this is the prime evidence source for the Head of Internal Audit Partnership's opinion.**
 - (iv) it be agreed that the outcomes of the work and the other matters referred to in the report provide evidence of a substantial level of internal control within the Council, which supports the findings and conclusions shown in the Annual Governance Statement for 2011/12.**
 - (v) the improvements in control that occur as a result of the audit process be noted.**
 - (vi) the Committee considers that the Council's internal audit service is effective.**

55 Approval of Annual Governance Statement 2011/12

The report explained that each year the Council must produce an Annual Governance Statement that summarised the approach to governance, showed how its approach fulfilled the principles for good corporate governance in the public sector, and drew a conclusion about the effectiveness of its governance arrangements. The Statement would be published alongside the Council's formal audited financial statements which would be considered by the Committee in September. The Statement was submitted for the Audit Committee to approve on behalf of the Council. The report highlighted just one area of significance for ongoing review on matters arising from an internal audit of full compliance with the Council's Data Protection Act arrangements.

The Chairman pointed out a couple of typing errors in the document which would be corrected before the statement was signed.

Resolved:

That the Committee approves the 2011/2012 Annual Governance Statement and it be signed off by the Leader and Chief Executive as required by regulations.

56 External Auditor's Update

The Audit Commission's report provided information about its audit work over the past year including the forthcoming 2011/12 financial statements, the progress with the outsourcing of its work to the private sector and a number of matters of other relevance and interest. In terms of the future of external audit, Local Authorities had not yet been able to choose their own external auditors as originally proposed so the Audit Commission had run an outsourcing procurement exercise for a period covering the next five years. Grant Thornton had been awarded the contract for the London (South), Surrey and Kent region and would therefore be this Council's External Auditor from 2012/13 to 2016/17. Audit Commission staff would TUPE transfer to Grant Thornton as of 1st November 2012, so many of the same individuals would continue to carry out work for the Council in the coming years. It had been a protracted process but there was now some certainty about the future and continuity for the Council which were positives. Additionally, fees for the next five years had effectively been fixed resulting in a 40% reduction on budgeted costs. This would be expanded upon as part of the next report on the Agenda.

Members said they were pleased that Andy Mack and his colleagues would continue to work with Ashford Borough Council.

Resolved:

That the report be received and noted.

57 Annual Audit Fees 2012/13

The report advised of a significant reduction in external audit fees for this year and the next four years following on from the outsourcing of the Audit Commission's Local Government and other public sector work. The report also detailed the new fee scales for the Council. The reduction in fees was around 40% which resulted in cumulative savings of £290,000 over the five year period of the Council's Medium Term Financial Plan.

In response to a question about whether Grant Thornton would expect the Council itself to undertake more background work on its accounts to justify the fee reduction, the Deputy Chief Executive said this point had been raised at the initial meeting with Grant Thornton and an assurance had been given that provided the Council kept up its current standard of preparatory work that no extra elements would be placed on them.

Resolved:

That the report be received and noted.

58 Compliance with International Standards of Auditing (UK and Ireland)

The Head of Internal Audit Partnership introduced the report which explained that the Council's External Auditors required an understanding of how those charged with governance (this Committee): - exercised oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council; gained assurance that all relevant laws and regulations had been complied with; was aware of any actual or potential litigation or claims that would affect the financial statements; and had carried out a preliminary assessment of the going concern assumption and if so had identified any events which may cast significant doubt on the Authority's ability to continue as a going concern. The Committee also needed to consider and agree a letter to the external auditors which provided assurances in the areas concerned.

It was noted that a number of Third Party Declaration forms were still outstanding from Members and a further reminder letter was being sent out this week. The Committee considered that Group Leaders should be informed as well as the individual Members.

The Chairman pointed out a couple of typing errors in the draft letter which would need to be corrected before the letter was signed.

Resolved:

That the content of the draft letter to the Audit Commission to provide assurance in respect of: - the risk of fraud; management processes for reporting fraud and potential breaches of internal control; potential litigation or claims; and the Authority as a going concern, be agreed.

59 Report Tracker and Future Meetings

It was noted that the Meeting on the 27th September would now include a Pre-Committee briefing on Data Protection and the Council's IT security arrangements as well as an additional update report on fraud. The Internal Audit Strategic Plan would not be needed again this September as it was a three yearly report. The Tracker would need to be updated accordingly.

Resolved:

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

Queries concerning these Minutes? Please contact Danny Sheppard:
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