

Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **5th March 2013**

Present:

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

Cllrs. Michael, Smith, Wright, Yeo.

Apologies:

Cllrs. Marriott, Taylor.

Also Present:

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

Andy Mack - Grant Thornton.

350 Minutes

Resolved:

That the Minutes of the Meeting of this Committee held on the 4th December 2012 be approved and confirmed as a correct record.

351 Future of the Fraud Investigation Team

The report followed on from previous reports and explained that various options for the future of the fraud investigation team had now been considered. It set out the background to the need to consider options and explained that the preferred option for the future was for the Council to retain a fraud investigation service, and for this to stand alone as a service within the Council so that its scope could widen to other service areas. This approach was supported by Management Team. The proposal, if supported by the Committee and the Cabinet would need more work on the scope and the financial issues, although reasonable assumptions were made in the report.

The Chairman opened the item up to questions/comments and the following responses were given: -

- The Council could choose not to opt in to the Single Fraud Investigation Service (SFIS). The only obligation was to investigate Housing Benefit Fraud all the time that sat with the Council.

- 60/70% of the current workload was already around Tenancy Fraud so the recently approved Bill would make investigation easier by providing the new powers but would make little difference to the way the team was currently working. As the only one of the four MKIP Authorities with its own housing stock, Ashford would require a wider brief from its fraud team than the others.
- Issues of funding and costs were proposed to be looked at further in future reports should the principles in this report be agreed. For the purposes of this report certain assumptions had had to be made and it would be necessary to take a few months to see how the welfare reform system panned out before proper conclusions could be drawn. It was right to be cautious at this stage.
- The suggestion in the report was that an in-house fraud investigation service would report to the Section 151 Officer. The main desire of fraud investigation was to protect the Council's income streams and whilst there was a role for Internal Audit to look at corporate/internal fraud, levels at Ashford were low.
- There were possibilities for the Council in various areas/departments around growing a market place outside of the Council, but this was very much a longer term goal.

Resolved:

- That (i) the conclusions from the options review into the future of the Fraud Investigation Team be noted, and the preferred option for the Council to retain a corporate fraud investigation service be supported, with the intention of making the change from April 2014.**
- (ii) subject to the above, it be agreed that Officers prepare a final proposal to include the scope in more detail, along with a further assessment of the financial impacts for consideration by this Committee, before consideration by the Cabinet in due course (as the proposal has structural and financial implications).**

352 External Audit Plan

Mr Mack introduced the first of four reports from the Council's external auditor. It set out the programme of work for the coming year in the three key audit areas (the accounts, value for money and grant certification). He was also pleased to advise that this year's proposed fee reflected a 40% reduction, though this depended on a number of factors being adhered to by the Council.

In response to questions about the Council's preparedness for meeting the demands of the fee assumption, the Deputy Chief Executive said he thought Management Team and Officers were up for the challenge. The Finance team was prepared, Officers had a good dialogue with External Auditors and understood their needs and approach, errors had been contained to an absolute minimum and some additional dedicated expertise had been brought in to assist with the close down of this years

accounts. He was confident the necessary paperwork and supporting certification could be delivered. A Member echoed these sentiments and said that the Finance section had demonstrated a dramatic improvement in recent years and he knew that they understood the expectations placed on them by External Audit.

In terms of the Audit Plan itself the following responses were given to questions/comments: -

- In terms of the Housing Revenue Account (HRA) the External Auditors did check the 'nuts and bolts' accounting and the value for money angle. The Chairman said he was concerned about some of the borrowing that was taking place, how many years it would take to pay that back and how it was scrutinised. This was something to perhaps discuss further outside of the meeting.
- Previously identified material weaknesses on journal entry controls had been responded to by the Finance Manager by way of a proposal to introduce a bi-monthly review of material journals and extracting and reviewing a report from the system.
- With regard to fraud risks associated with employee remuneration, Internal Audit undertook an annual payroll audit and the results of that work were shared with External Auditors.

Resolved:

That the External Audit Plan be received and noted.

353 External Audit Update

Mr Mack explained that this report brought the Committee up to date on Grant Thornton's progress in delivering their responsibilities as the Council's External Auditors. The report also drew attention to emerging national issues and developments that may be relevant to the Council and a number of challenge questions in respect of those emerging issues which the Committee may wish to consider. Grant Thornton's reports 'Towards a Tipping Point?' and 'Improving Council Governance' (which was handed out to Members), would provide useful further reading. The Chairman said he had attended a recent seminar run at Grant Thornton's offices and he had found it extremely useful. One of the key questions he had taken away from the day was "to what extent can you accept the assurances you are being given?" and considered that should be in the forefront of the Committee's mind going forward.

The Chairman said that the challenge questions under the emerging issues and developments section of the report were key and, along with the two national reports from Grant Thornton, should probably form the basis of some standalone work. It was agreed that as this report had only just been released, the Committee should hold an additional informal session some time in April 2013 to discuss these matters. This would be held on a Friday afternoon some time after the Easter holidays, date TBC. Members were encouraged to keep hold of their papers.

Resolved:

That the External Audit Update be received and noted.

354 Certification of Grant Claims Annual Report

The report summarised Grant Thornton's overall assessment of the Council's management arrangements in respect of the certification process for 2011/12 and drew attention to significant matters in relation to individual claims.

Resolved:

That the report be received and noted.

355 Assurance from Those Charged with Governance

The report advised of the need for the Council's External Auditors to annually refresh their understanding of how the Committee gains assurance over management processes and arrangements. The Committee was therefore asked to respond to questions on how it oversaw management processes in a variety of specific areas and gained assurance on those matters. A Member wondered if this document should be discussed at the informal April session, along with options for further training/briefings etc. The original deadline for the response was the 31st March 2013, but Mr Mack said he would be happy to extend that until after the informal session if that is what Members wanted.

A Member asked about the Council's whistleblowing policy in relation to fraud and said he would like to know a little more about it as such policies did have a tendency to be 'put on a shelf' and forgotten about. The Deputy Chief Executive said the Council had a policy that had been used occasionally in the past, but no reports had been made in the last year. The Council wanted to refresh this policy and keep it 'live' and re-issue it to staff, reminding them of their rights under whistleblowing. It was expected that a revised whistleblowing policy would come to the next meeting of this Committee in June. In terms of external whistleblowing (on tenancy/benefit fraud etc), the Investigation & Visiting Manager said that this was encouraged and advertised by way of a hotline number and dedicated email address.

The Chairman said he had some ongoing apprehension about the companies the Council was proposing to set up, in relation to them being a going concern. The Deputy Chief Executive said this consideration would be fundamental in the creation of any company. It was beholden on the Directors to have a sustainable structure in place and for the Council to be asking those questions. In terms of the auditing of transactions between such companies, there would be governance arrangements in place around the structures and how the companies related to each other and because they were to be set up by the Council they would be consolidated within the overall accounts and be subject to the Council's own audit requirements.

Resolved:

That a response on the necessary areas of assurance from the Chairman of this Committee be produced and provided to Grant Thornton.

356 Presentation of Financial Statements

The report advised that the Council was required to follow statutory guidance for the publication of its accounts and each year that guidance was reviewed and updated. The report looked at the impact of those updates on the Council's accounts for 2012/13. In addition, the report reviewed the lessons learnt from the accounts process for 2011/12. The Council had completed a review of its accounting policies that would be used for the production of the statement of accounts.

The Chairman said that in line with his earlier comments regarding scrutiny of the HRA he wondered if it was possible for there to be an audit review of HRA spend. He had concerns over the Farrow Court project for example where it seemed that the principle had been agreed without knowing where the money was going to come from. The Deputy Chief Executive said that this was not quite the case as whatever the HRA account wanted to do, had to fit within the overall HRA budget cap. In terms of the capital investment in Farrow Court, the principle had been agreed, but there was a need for a dedicated project group to work up the scheme and it would need to be signed off by the Leader and Deputy Chief Executive to ensure it was within the agreed affordability envelope. With regard to transparency/monitoring, such projects would be covered within the regular Budget Monitoring Reports and it would be important for Audit Committee Members to keep an eye on those. The role of an Audit Committee Member was to satisfy themselves that the risks associated with such projects were properly controlled and that the financial implications were being reported honestly and accurately, whereas the 'nuts and bolts' of projects would be discussed and agreed elsewhere. The Chairman said he accepted those comments, but there was concern that some Members could only get involved in such discussion after the event and when it was too late to pick up concerns.

In response to a question the Principal Accountant advised of the arrangements for revaluing the Council's assets, land and buildings. This was based on a five year rolling programme with major changes being picked up in a year end review each year and then adjusted.

Resolved:

That the report be received and noted and the accounting policies for the 2012/13 accounts, as at Appendix A of the report, be approved.

357 Strategic Risk Review

The Head of Internal Audit Partnership introduced the report which informed Members of the current position regarding the Authority's strategic risks. A revised paragraph 10 to the report was tabled.

The Committee ran through the Management Action Plans for the risks one by one and the following comments were made: -

Risk 1a – Economic Growth

The proposal was to reduce this from a score of 5/3 (High/Severe) to 4/3 (Significant/Severe) but the Committee was not comfortable with this idea. The Chairman said he thought there could be a decline in average earnings if the Sevington Distribution Centre proposal went ahead as this could skew the overall figures. The Committee recommended that this score be left at 5/3.

Risk 1b – Mix and Quality of Housing

Noted and agreed to leave score at 4/3 (Significant/Severe).

Risk 2 – Volatile Income Streams

Noted and agreed to leave score at 6/3 (Very High/Severe).

Risk 3a – Community Demands/Expectations

The Committee expressed some concern that community demands and expectations were rising, in particular with regard to new developments coming on board. The Committee recommended that the score should be raised from a 3/2 (Low/Medium) to a 4/2 (Significant/Medium) in terms of the potential reputation risk to the Council. The Committee also considered that the Chilmington Green development and surrounding issues should be drawn out as a standalone risk within the register.

Risk 3b – Consequences of Universal Credit

Noted and agreed to leave score at 4/3 (Significant/Severe).

Risk 4 – Opportunities for Localism

Noted and agreed to leave score at 3/3 (Low/Severe).

Risk 5 – Workforce Planning

In response to a question the Deputy Chief Executive advised that the Council had a Leadership Succession Planning Programme in place to develop the Council's future Managers. This approach would continue to be developed. It was agreed to leave the score at 4/3 (Significant/Severe).

Risk 6 – Members Skills, Capacity and Experience

The proposal was to reduce this from a score of 3/2 (Low/Medium) to 2/2 (Very Low/Medium) but the Committee was not comfortable with this idea. Members said that at a time where there was to be a new Leader, potential new Cabinet Members and a number of recently elected Members, there were issues over skills, capacity and experience. A Member who was also Chairman of the Member Training Panel said that there was still an issue in getting Members to attend training/briefing sessions and whilst the Panel would be attempting to address this, it had been difficult to get the message across. Members agreed to discuss the particular issue of training/briefings for this Committee at its informal session in April. The Committee recommended that the score for Risk 6 be left at 3/2.

Risk 7 – Business Plan

Noted and agreed to leave score at 4/3 (Significant/Severe).

Risk 8 - Housing

Noted and agreed to leave score at 4/3 (Significant/Severe).

Risk 9 – Infrastructure

Noted and agreed to leave score at 6/3 (Very High/Severe).

Resolved:

- That**
- (i) the Strategic Risk Management Action Plans be received and noted.**
 - (ii) the Committee is satisfied with the action being taken to manage the Council's Strategic Risks.**
 - (iii) the risk scores be set as outlined above.**

358 Annual Governance Statement – Progress on Remediating Highlighted Significant Areas of Governance

The report was the latest update explaining progress against the one area for continued work in the Annual Governance Statement agreed at the September meeting of the Committee. The highlighted matter was a continuation of work to improve the Council's partnership governance arrangements following a review of the principles of good partnership governance during 2012.

Resolved:

That the progress made in improving the Council's governance arrangements, with emphasis on the publishing of information related to the Ashford Locality Board be noted.

359 Internal Audit Operational Plan 2013/14

The report set out the one-year Internal Audit Operational Plan for 2013/14 and asked the Committee to review and approve the Plan.

In response to a question about to what extent Internal and External Audit overlapped, the Head of Internal Audit Partnership said that the role was quite different. External Audit primarily focussed on the accounts and public assurance/accountability and whilst they did get involved in other things, they did not look at systems, operational controls and if the Council was achieving the stated objective of Members, in the same way Internal Audit did. Internal Audit did work with External Auditors and they needed to have faith in the work of Internal Auditors to provide assurance. Going back to previous conversations, without the work of Internal Audit it was likely that the External Audit fees would go up because they would have to do more of the background work.

Resolved:

That the contents of the one year Internal Audit Operational Plan (as shown at Appendix 1 to the report) be approved.

360 Public Sector Internal Audit Standards

The report provided a summary of the new standards for the provision of Internal Audit within public sector organisations in the United Kingdom. The standards would be effective from 1st April 2013. The Committee was asked to note the new standards and the action that would be taken to implement them for the Mid Kent Audit Partnership, which included Ashford Borough Council. The Head of Internal Audit Partnership said that most of the points in the report were already happening at Ashford, but he intended to submit a 'matters arising' report on this to the next meeting of the Committee in June.

Resolved:

That the new Public Sector Internal Audit Standards and the action that will be taken to implement them for the Mid Kent Audit Partnership, which includes Ashford Borough Council, be noted.

361 Audit Committee – Future Work Programme

Resolved:

It was agreed that the potential development areas outlined in the report be discussed further at the informal session in April along with the possibilities for further training opportunities and restoring the pre-Committee briefing sessions.

362 Report Tracker and Future Meetings

Resolved:

That subject to the additional items discussed during the Meeting, and any changes arising from the informal session in April, the report be received and noted.