

Finance and Audit Committee

Tuesday, 23 June 2015

7.30 pm

Present:

Cllr Derek Shelbrooke (Chair)
Cllr Karen Hurdle (Vice-Chair)

Cllrs: John Knight
 Lesley Boycott
 William Lambert
 John Burden
 Colin Caller
 Brian Sangha
 Lenny Rolles

Julie Gibbs	Assistant Director (Finance)
Stuart Bobby	Assistant Director (Corporate Performance)
Sarah Parfitt	Service Manager Finance
Katey Arrowsmith	Audit & Assurance Manager
James Larkin	Fraud Investigations Manager
Vaughan Matthews	External Auditor, Grant Thornton
Darren Wells	External Auditor, Grant Thornton
Ben Clarke	Committee & Scrutiny Assistant

1. Apologies

No apologies of absence were received.

2. Minutes

The Minutes of the meeting held on 17 March 2015 were signed by the Chair

3. Declarations of Interest

No declarations of interest were made.

4. Annual Treasure Management Review 2014/15

The Service Manager (Finance) presented to the Committee the Annual Treasury Management Review for 2014/15 and explained this review describes the result of the strategy followed during the year.

The Service Manager highlighted that:

- the Council maintained an average balance of £25 million internally managed funds

- despite low investment yields, the average rate of return still exceeded the benchmark by 0.139%.

One Member asked for clarification on what classes as Capital receipts; the Service Manager (Finance) advised that Capital receipts are used to fund capital ventures.

The Chair highlighted point 1.3 and Members **noted** down the findings of the report.

5. Internal Audit & Assurance Arrangements

The Assistant Director (Corporate Performance) outlined to Members the proposed way forward with regards to delivery of Internal Audit & Assurance functions for Gravesham Borough Council.

Internal Audit & Assurance

- the shared management arrangement for shared management of Internal Audit services between Gravesham Borough Council and Tonbridge & Malling Borough Council has been terminated, due to an approach from Medway Council to share management of this service, with a commitment to exploring a fully shared service between the two organisations in due course;
- discussions have taken place with the Leaders of both organisations, together with the Senior Management Teams. In addition, the respective Chairs of the Finance & Audit Committee and Performance & Administration Committee, both pre and post the recent election, have been consulted and have provided their agreement to the new arrangement;
- Medway will pay GBC £40,000 towards the cost of the shared service of the Audit & Assurance Manager

Fraud Services

- the shared management of Fraud Services between GBC and Tonbridge & Malling (TMBC) has been terminated as TMBC have served notice that they wish for this arrangement to cease;
- the Fraud Investigations Manager will now solely work for GBC, although options are being looked into to offset this loss of income.

One Member questioned how the sharing would be managed with regards to travelling time and training cost proportion.

The Audit & Assurance Manager advised that:

- she can access both networks from one workplace so she will constantly be in both Medway and Gravesham networks from her workplace
- travelling time would not be a problem as the commute to Medway Council is shorter than the one she used to do to Tonbridge & Malling Council

The Assistant Director (Corporate Performance) explained that the cost of training would be:

- split 60/40 if the training is beneficial to both Councils with Medway paying the majority in recognition of them being a Unitary Council;

- Gravesham pay the full cost if the training is beneficial to Gravesham only;
- Medway pay the full cost if the training is beneficial to Medway only.

Members agreed to **endorse** the approach for future delivery of Internal Audit & Assurance services as set out in the report.

6. Annual Fraud Report 2014/15

The Fraud Investigations Manager presented to the Committee a report detailing the Fraud team's performance over 2014/15.

The Fraud Investigations Manager directed the Committee to Paragraph 2.8.6 on P24 to highlight that more data matches had been received updating the total to 1795.

- 1202 of the matches are closed;
- 159 are being investigated;
- 370 are left to still be looked into.

The Fraud Investigations Manager pointed out that there would usually be a comparison to the previous year in the report but the table in Appendix 2 of the report covers the last five years of investigations.

The Fraud Investigations Manager reported that £1.5 million had been identified by the Fraud team which will be paid back over time – this amounts to a big saving over the cost of £200,000 for the Fraud Team.

The Fraud Investigations Manager advised he will now be working at Gravesham full time until such a time that a merger with Medway Council can be carried out; it has been discussed that external work could also be looked into while working full time at GBC.

In response to a Member question, the Assistant Director (Corporate Performance) referenced paragraph 3.7.5 - Corporate Fraud advising there were 6 dismissals this year, three of which were summary dismissals which he would be happy to circulate the details of to Members separately should the Committee wish for additional information.

One Member asked whether the Police were contacted about fraudulent activity when it was found.

The Fraud Investigations Manager advised if it was serious enough it would be referred to the Police otherwise it is handled internally.

Members considered the report and agreed to **endorse** the work undertaken by the Council during 2014/15 with regard to responding to fraudulent activity as set out in the report.

7. Annual Internal Audit Report 2014/15

The Audit & Assurance Manager presented to the Committee the Annual Internal Audit Report for 2014/15 which updated Members on work carried out through the year including the Assistant Directors (Corporate Performance) opinion as Chief Audit Executive.

The Audit & Assurance Manager went through each appendix and highlighted the following:

- the team experienced a change of officers which impacted on their performance;
- the majority of the Audit Plan for 2014/15 was delivered but the team were not able to complete four items due to the staff turnover; these items were considered in the development of the 2015-16 Audit Plan;
- the Council continued to implement a very high proportion of the recommendations agreed through audit work in the year;
- the 2015/16 Audit Plan is underway, and an update will be provided to the Committee in October.

The Chair raised concern on appendix five over the two reds shown in the table. The Audit & Assurance Manager explained that one related to a fraud proofing review of the Council's arrangements to reimburse staff business expenses; the review found that procedures in place were not robust enough and had not been sufficiently publicised to staff.

The other related to Reprographics which found issues with the internal pricing structure for jobs carried out within the unit, and other administrative issues.

Management had responded positively to both reviews and formal follow up audits have been scheduled for the 2015/16 financial year.

Member's agreed to **endorse** both the work undertaken by the Audit Team in 2014/15 as well as the opinion given by the Assistant Director (Corporate Performance).

8. Annual Governance Statement 2014/15

The Assistant Director (Corporate Performance) explained to the Committee that the Annual Governance Statement is what falls outside of the annual review of the Authority's Governance arrangements, and checks that policy and procedures are being followed.

The Assistant Director (Corporate Performance) advised the Committee of the four Supplementary Packs published in accordance with this agenda item.

The Assistant Director (Corporate Performance) highlighted that:

- appendix 3 – Looks at the process for the Statement ensuring everything conforms to the Corporate Objectives, and the steps followed to arrive at the recommended actions.
- the table at the back of the Annual Governance Statement (P76 of the agenda) details any control issues identified for rectification; the most significant being number 5 which is making sure the right policies and procedures are in place.
- the Chair would have to sign two copies of the Statement following acceptance by the Committee.

One Member explained he was happy to support the Statement but questioned how the Corporate Governance Control would work should there be a failure to follow policy or legislation; taking the problem to the Monitoring Officer, Chief Executive or Grant Thornton.

The Assistant Director (Corporate Performance) advised that is the correct process.

Members **approved** the Annual Governance Statement for the 2014/15 financial year.

9. Letter to those charged with Governance

The Assistant Director (Finance) explained to the Committee that each year the external auditor writes to the Chair to ascertain how the Committee gains assurance over management processes and arrangements; the letter can be seen on P81 of the report.

The Assistant Director (Finance) advised she had consulted with the Chair in preparing a response to the external auditor and invited questions before the letter was signed off.

One Member highlighted question 16 from the response by the Chair asking what would happen if the process failed:

What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?

The Assistant Director (Corporate Performance) agreed that the route suggested by the Member would be correct, that being that it would go to the Monitoring Officer and then through to the Chief Executive for consideration.

Members **agreed** the response to the letter is consistent with its understanding of the Council's management processes and arrangements.

10. Audit Commission Grant Certification Report

The External Auditor explained that the Certificate qualifying claims audited in relation to 2013/14 for GBC was down to two claims and it is a requirement to report all errors found in the certification letter.

The External Auditor reported that they had found an error in the housing benefit subsidy claim; they identified more errors in 2013/14 than the previous year before. More of which were human than system error.

Referencing Appendix B the External Auditor explaining it set out an action plan how to address monthly checks to remove errors.

One Member noted that two authorities had not received a qualified claim for housing benefit claim subsidies and asked if we could learn anything from them.

The Assistant Director (Finance) advised that a year ago she had visited one of the authorities aforementioned and noticed they were very resource intensive with a bigger department and people working for them which could be the reason for their zero claims.

Members **agreed** to note the findings and conclusions of the report as well as the recommendation in the report.

11. Grant Thornton Audit Update Report May 2015

The External Auditor informed the Committee that the update report is available on the website.

Members **noted** the report.

12. Grant Thornton Audit Plan 2014/15

The External Auditor reported that the Audit Plan is the result of early risk assessment; what risks need responding to and what needs to be completed.

The External Auditor highlighted some of the Audit risks and what they look at:

- audit transactions including fraudulent;
- management override controls;
- operating expenses;
- welfare expenditure;
- employee remuneration;
- property plant and equipment.

One Member asked:

- is it a challenge getting local government funding?
- is it prudent to maintain reserves to tackle any situations that come up in the future?

The External Auditor advised it is still a hard process getting local government funding and the Assistant Director (Finance) advised that:

- GBC does have reserves in place;
- regular finance reports are brought to the Committee detailing reserves and funding structure;
- based on current Medium Term Financial Plan assumptions, there is an estimated £3m funding gap expected in 2019/20.

The Service Manager (Finance) advised the Committee that there is a Central Government budget announcement on the 8 July and anything in these announcements may affect the financial forecasts.

One Member raised concern over the three million gap and asked whether it was the current financial projection.

The Assistant Director (Finance) said that this was based on the Estimates report that went to Cabinet in February, but it could change once the budgets announcements are made on the 8th July.

Members **noted** the Grant Thornton Audit Plan 2014-15.

13. Audit Fee Letter 2015/16

The External Auditor presented the Audit Fee letter to the Committee.

One Member asked why the Grant Certification fees £9,600 which then increases to £14,000.

The External Auditor advised that the Audit Commission based figures on two years previously so the figures could go up or down in a cyclical fashion.

Members **noted** the audit fee agreed with officers.

14. Any other Business

The Chair reminded the Committee that there were Finance & Audit training sessions coming up which were mandatory for all F&A Members:

- How Local Government Finances Work – Monday 29 June 2015 6:00 – 8:00pm;
- Annual Statement of Accounts – Wednesday 8 July 2015 7:00 – 9:00pm.

Close of meeting

The meeting ended at 8.38pm.