

**Medway Council**  
**Meeting of Audit Committee**  
**Thursday, 30 June 2016**  
**7.00pm to 9.15pm**

**Record of the meeting**

**Subject to approval as an accurate record at the next meeting of this committee**

**Present:** Councillors: Kemp (Chairman), Gulvin, Maple, Osborne and Tejan

**In Attendance:** Phil Watts, Chief Finance Officer  
Katey Arrowsmith, Head of Audit and Counter Fraud Shared Service  
Jonathan Lloyd, Principal Accountant  
James Larkin, Audit & Counter Fraud Shared Services Manager  
Michael Turner, Democratic Services Officer  
Ryan Barlow, BDO  
David Eagles, Engagement Leader, BDO

**120 Apologies for absence**

There were none.

**121 Record of meeting**

The record of the meeting held on 22 March 2016 and the Joint Meeting of Committees held on 18 May 2016 were agreed as a correct record and signed by the Chairman.

**122 Urgent matters by reason of special circumstances**

There were none.

**123 Declarations of disclosable pecuniary interests and other interests**

Disclosable pecuniary interests

There were none.

Other interests

Councillor Maple disclosed an interest in agenda item no 8 (Annual Internal Audit Report 2015/16) in relation to the theatre income collection audit as he had a close relative who worked at one of the theatres mentioned.

## **124 Review of Audit Committee Terms of Reference**

### **Discussion:**

The Head of Audit & Counter Fraud Shared Service introduced this report which reviewed the Terms of Reference of the Audit Committee.

Noting the likely trend for the Council to enter into further joint ventures such as Medway Norse, a Member suggested that, for the review next year, consideration be given whether internal audit should have an overview of the accounts of joint ventures and, if so, how this would work.

### **Decision:**

The Committee agreed to:

- a) note the terms of reference and;
- b) ask that, for the review of the Committee's terms of reference which will take place next year, consideration be given to whether audit should have an overview of the accounts of joint ventures established by the Council.

## **125 Treasury Management Outturn Annual Report**

### **Discussion:**

The Principal Accountant introduced this report which gave an overview of treasury management activity during 2015/16.

Members also considered two addendum reports. One advised Members of an error in the original report issued, i.e. the wrong Public Works Loan Board graph in paragraph 7 of the original report and the second updated Members on developments following the UK referendum held on 23 June 2016.

A Member asked what the effect would be on the Council if the Bank of England was to reduce interest rates following the EU referendum. Members were advised that a reduction was expected, which would reduce the Council's return on its investments. However, most of the £20m lent to local authorities was at a fixed rate until the loans matured so would not be affected. The Council was in a net borrowing position so a fall in rates would be marginally beneficial to the Council. A Member queried the extent of EU grants to the Council. The Committee was advised that there were no longer any significant EU grants as they had all come to the end of their natural life.

A discussion took place about the need in 2016/17 to temporarily borrow £25m from other Councils largely as a result of government rescheduling of grant payments which meant the Council had less liquid cash. Some concern was expressed that the Council was in this position. The Chief Finance Officer

## Audit Committee, 30 June 2016

advised that the announcement about the change in how grant payments were scheduled had been included on the provisional settlement but unfortunately this had been missed amongst the detail. However, it was only likely to affect the beginning of the financial year and did not see this as a major problem. Concern was expressed that this announcement had not been noticed given it had led to temporary borrowing which inevitably came at a cost to the Council. An assurance was sought that this would not happen again and also the cost of borrowing £20m over three months was queried. The Chief Finance Officer advised that the cost was approximately £30,000, but this should be seen in the context of strong treasury management performance overall. He added that going forward the revenue support grant would decrease so he did not see this change in how grant payments were scheduled as a major risk for the future. In response to a question about how long temporary borrowing would continue, Members were advised that this was expected to continue for a considerable period given interest rates on long term loans were so much higher than for temporary borrowings. A Member queried whether the Council was unusual in the extent of its temporary borrowing or whether this was part of a wider trend amongst councils. The Chief Finance Officer undertook to provide comparative information.

A Member queried the £342,000 of the adverse variance on treasury expenses caused by a payment to HMRC in respect of output VAT on charges to HM Prisons. The Chief Finance Officer commented that there was a small possibility, dependent on decisions by the Prison Service and HMRC, that the VAT may be returned to the Council. Members congratulated the treasury management team on the strong performance in terms of the investment outturn for 2015/16.

Members discussed the addendum report on developments following the referendum. A Member asked if any thought was being given to changing the Strategy in terms of what levels of risk were now considered appropriate in the current volatile situation. He did not consider there was a need to amend the Strategy in light of the referendum result, noting investment in properties were relatively modest. The Chief Finance Officer commented that the update report only looked at the impact on treasury management. He expected austerity to continue and doubted whether the current 4 year settlement from the Government could continue.

### **Decision:**

The Committee agreed:

- a) in accordance with the CIPFA Code of Practice, to note the reports and recommend them to Cabinet, and;
- b) to request a briefing note on the use of temporary borrowing, including comparative data.

**126 Corporate Fraud Update**

**Discussion:**

The Head of Audit & Counter Fraud introduced this report which informed Members of matters relating to corporate fraud, including outcomes of investigations and fraud referrals received by the Corporate Anti Fraud Team.

In response to a request from a Member, officers explained in more detail how the national fraud initiative (NFI) worked, adding that NFI was run by the Cabinet Office who were looking to expand the data sets included in the initiative. However, the need for the consequent necessary legal agreements meant this could be a slow process. The Council was also looking to match more data that it held itself. A Member suggested that the latter approach be fed into the Council's Digital Transformation team.

In response to a question about the use of real time information to prevent fraud, the Committee was advised that real time tax information was accessed by the Council's benefits section. The Council was looking to match housing waiting list data to housing benefit data. This could lead to an estimated 400-500 people being removed from the waiting list, but this would not all be due to fraud.

A Member asked how the investigation of benefit fraud to the Single Fraud Investigation Service (SFIS) had gone. Officers advised that the handover had gone smoothly.

A Member referred to the significant increase in housing benefit fraud (£1,103,632 in 2015/16 compared to £359,647 in 2013/14) and, recognising this was now the responsibility of SFIS, asked what the causes of this were. Officers felt there were a number of factors including more public referrals, greater use of data matching and higher private accommodation rental costs. The aim of the DWP was to reduce fraud but while there may be a change in classifications, officers were doubtful whether the overall figure would decrease.

Referring to the statement in the report that no investigations were linked to employee or contractor fraud, a Member asked if there had been any reports of fraud and, if so, why they had not been investigated. Officers advised that there had been no reports of employee or contractor fraud in quarter four. As to whether the companies that the Council contracted with were required to report fraud to the Council, the Head of Audit replied that such a requirement was typically part of the contract specification for the contract but internal audit had no powers to investigate.

**Decision:**

The Committee agreed to note progress in investigating fraud in accordance with the approved Anti-Fraud and Corruption policy.

**127 Annual Internal Audit Report 2015/16**

**Discussion:**

The Head of Audit & Counter Fraud introduced this report which provided the annual internal audit opinion on the overall adequacy and effectiveness of the council's governance, risk and control framework, in support of the Annual Governance Statement.

A Member asked for an explanation why net staff resources were 888 days against an original resource budget of 1,200 days. The Head of Audit & Counter Fraud Shared Service explained that the 1,200 figure was based on the establishment in place when the 2015/16 Plan was agreed. Since then the team had changed significantly in terms of numbers and its structure with a net outturn of fewer audit days. Due to improved processes and efficiencies in how the team worked, a substantial amount of work had been delivered and she was confident this was enough to support her opinion on the Council's overall control environment. For 2016/17 forecasts for audit days were now much more in line with 2015/16 plans.

A Member asked if the Griffin Academies Trust could be subject to a school probity review as a matter of urgency following concerns about how the Trust operated in Medway. Officers advised that internal audit had no remit in respect of academies. If the Council had any concerns about an academy then they would raise this with the Regional Schools Commissioner.

Reference was made to the audit of Hempstead Juniors and what the audit had found. The Head of Audit replied that the audit had not raised any significant control issues and offered to share the original report with Members.

A Member expressed surprise that libraries were still using paper forms to process payments for additional duties. Officers advised that audit were working with the service to moving to use the existing Self Serve electronic system.

A Member welcomed the improvements at the Corn Exchange particularly given the significant problems that had been reported to the Committee in the past but commented improvement were still needed.

A Member referred to issues around cash handling that had been found by audit reviews in the past and commented that the move to Council services accepting cashless methods of payment as a result of the Digital Transformation programme should help with this.

**Decision:**

The Committee agreed to note the Annual Internal Audit Opinion for 2015/16.

**128 Audit & Counter Fraud Shared Service Update**

**Discussion:**

The Head of Audit & Counter Fraud Shared Service introduced this report which updated Members on the implementation of the new Shared Service for Medway Council and Gravesham Borough Council. The report also provided an update on the transfer of Housing Benefit Fraud work to the Department for Work and Pensions Single Fraud Investigation Service.

Members welcomed the successful start to the new shared service and asked that their congratulations be passed on to the Team on this achievement and for the clear focus they had shown.

It was recognised that joint working with other authorities and public bodies was inevitably the way forward given the need to reduce costs and drive out savings. In response to a comment from a Member, the Chief Finance Officer agreed that it would be preferable to have a period of stability to allow the new shared service to become embedded before the Council began to think about whether another authority should join.

**Decision:**

The Committee agreed to:

- a) note the completion of the project and the successful implementation of the shared service for Audit & Counter Fraud;
- b) note that matters relating to the service will be reported through the routine Audit & Counter Fraud update reports in future.
- c) ask that the Committee's appreciation be conveyed to the Audit and Counter Fraud Shared Services team for the successful start to the partnership and the clear, focused approach it had brought.

**129 Annual Governance Statement**

**Discussion:**

The Head of Audit & Counter Fraud introduced this report which explained the requirements for reporting and approving an Annual Governance Statement (AGS) covering the financial year 2015/16, and to seek comments and approval of the Statement.

A Member welcomed that diversity impact assessments (DIAs) were included in reports to decision making bodies where deemed appropriate. Noting that questions had been asked on occasion why DIAs had not been produced for some Cabinet reports, it was suggested that for next year's AGS an analysis could be carried out to identify how many DIAs had been produced for each

## Audit Committee, 30 June 2016

report requiring a decision. If this was done on an annual basis then it may be possible to spot trends and take action to improve the decision making process.

### **Decision:**

The Committee agreed:

- a) approve the Annual Governance Statement and;
- b) ask the Monitoring Officer to consider carrying out, for next year's Annual Governance Statement, an analysis of how many diversity impact assessments have been carried out in relation to the overall number of reports to Cabinet and Council requiring a decision.

### **130 Statement of Accounts 2015/2016**

#### **Discussion:**

The Chief Finance Officer introduced this report which asked Members to approve the Council's draft Statement of Accounts for 2015/16. Referring to the addendum report he advised that the adjustments essentially related to two errors which were immaterial in audit terms. Noting the previous reservations expressed about capacity, he commented that he had received the draft statement of accounts on 10 June for sign off, which was a considerable achievement given the shortened and challenging timescales. Members congratulated the finance team on this achievement, particularly given that a number of senior members of the team had left the Council in the past 12-18 months.

A Member referred to the overspend in children's social care (£3.75m) and made the point that this repeated overspend was unsustainable. The Chief Finance Officer commented that costs had escalated in the second half of the year but quarter one feedback so far showed the number of looked after children was starting to reduce. The new Assistant Director for this service was confident measures would be put in place which would reduce costs.

A Member asked about the timescales for the ICT infrastructure works mentioned in relation to the Better for Less overspend. There was a £6m budget for digital transformation over a three year period and this included the cost of the ICT infrastructure works.

Clarification was sought on the public health budget and Members were advised that the Public Health Team had managed the reductions in grant and this had resulted in a year end underspend. As there was a need to demonstrate that public health grants were spent on services which delivered a public health outcome, the under spent grant had been reclassified against services which achieved that.

A Member referred to the under achievement of income of £230,000 in leisure and culture and acknowledging the impact the private sector considered this

## Audit Committee, 30 June 2016

was still a significant sum. His concern was this could threaten the viability of council leisure services. The Chief Finance Officer commented that a decision had been taken to remove the £1m subsidy allocated to this service and as a result work had started to increase income and reduce costs. .

A discussion took place about the overspends in Medway Norse, Category Management and Better for Less. The Chief Finance Officer commented that the Better for Less programme had lasted three years and therefore the savings target had been overtaken by the wider budget process. A lesson learned for the Digital Transformation programme was to ensure that savings were not double counted as had happened with some of the category management savings. Therefore savings which were as a result of digitalisation would be classed as such. A one off investment of £6m had been allocated to the capital programme for Digital Transformation and it was expected that this would lead to a reduction in the revenue budget by £7m pa. Whilst Medway Norse had seen a growth in its business this had been affected by other pressures such as the national living wage, which had reduced the joint venture's profit. The challenge for Medway Norse was to increase the amount of external business.

Members discussed how public bodies in Medway acting together could achieve savings by one body making an investment which yielded savings for another. Whilst the benefits of such an approach were recognised so too were the complexities in terms of budgeting and decision making in how such savings were allocated.

The revised approach to how senior officer remuneration was reflected in the accounts was welcomed. (See minute No 886 – March 2016)

### **Decision:**

The Committee agreed to:

- a) note the revenue and capital outturns as reported and;
- b) approve the draft statement of accounts for 2015/16.

## **131 External Audit Fee**

### **Discussion:**

The Chief Finance Officer introduced this report which set out the proposed fees from BDO, external auditors to the Council, for 2016/17.

The Committee were advised that a report on the options regarding the appointment of an external auditor would be presented to the next meeting.

Referring to previous concerns from BDO about the capacity of the finance team and the council to meet the new deadlines for the closure of accounts, the Chief Finance Officer commented that the team had not increased in capacity

## **Audit Committee, 30 June 2016**

but had delivered the draft accounts to the new timetable through working more closely with the organisation to explain the new deadlines and their importance and also by working more efficiently. BDO agreed with this assessment.

### **Decision:**

The Committee agreed to note the contents of the Planning Letter 2016/17.

**Chairman**

**Date:**

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