

**Medway Council**  
**Meeting of Audit Committee**  
**Tuesday, 10 January 2017**  
**7.00pm to 8.23pm**

**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  
Michael Turner, Democratic Services Officer  
David Eagles, Engagement Leader, BDO  
Jonathan Lloyd, Principal Accountant

**574 Apologies for absence**

There were none.

**575 Record of meeting**

The record of meeting of the Committee held on 29 September 2016 was agreed and signed by the Chairman as correct.

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

There were none.

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

Disclosable pecuniary interests

There were none.

Other interests

There were none.

**578 Treasury Management Strategy 2017/18**

**Discussion:**

Members considered a report regarding the Council's Treasury Management Strategy for the 2017/2018 financial year. The Treasury Management Strategy incorporated within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.

The following issues were discussed:

- The Council's contract with Capita Asset Services for external treasury management advice was due to expire at the end of February 2017. In response to a question about the possibility of a joint procurement exercise with other councils, officers advised that this had been discussed with other Kent councils but everyone had concluded that it would be better to procure individually as a joint approach would increase the value of the contract and EU procurement rules would then apply. A Member asked officers to bear in mind that when the contract came up for renewal again the procurement rules may have changed and joint procurement may be easier.
- A Member asked what training had been provided to the Members of the Committee, given the CIPFA code required that Members with responsibility for treasury management received adequate training. The Chief Finance Officer commented that the specification for the contract for external treasury management advice would include a minimum of two Member training sessions per year for the Committee. The possibility of this being opened up to all Members would be looked into.
- Due to the Council's under-borrowed position and the availability of inexpensive short term loans, the Council wished to avail itself of the opportunities offered by low interest rates to maximise its investment returns while remaining within its under-borrowed position. This represented a change from the previous policy of not borrowing in advance of need.
- Money Market Funds (MMFs) offered enhanced returns and it was proposed to use MMFs as part of the Council's investment portfolio. Many other councils followed the same approach. In response, a Member commented that there may be similar concerns from some Members with this proposal as with the proposal that the Council should invest in the CCLA property fund. Another Member asked how volatile these products were. Officers assured Members that they were very safe investments, although the returns were not high.
- In response to a question about the likely risks and impact on the Council following Article 50 being triggered by the end of March as part of the UK's exit from the EU, officers advised that any impact on the Council was likely to be a result of the wider effect on the UK economy and interest rates, as well as the possible consequences for levels of revenue support grant.
- Noting that borrowing increased by £25m over the course of 2016/17, a Member asked if this represented an additional £25m of unplanned

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borrowing. Officers replied that this was not the case and this was a reference to the fact that there had been £25m more borrowing than the previous year. This was due to capital expenditure and was not seen as a matter of concern by officers.

### **Decision:**

The Committee agreed to note the report and forward its comments on to Cabinet.

## **579 Annual Audit Letter 2015/16**

### **Discussion:**

Members considered a report which reflected the work carried out by BDO, the Council's external auditors, in respect of the 2015/16 financial year.

In response to a request for an update on progress in resolving the objection to the accounts in respect of the borrowing incurred by the Council in the form of Lender Option, Borrower Option loans (LOBOs), the Engagement Lead, BDO advised that no conclusion had been reached yet. As a large number of similar objections had been lodged across the country, external auditors were looking to learn from those auditors who were in a more advanced stage. It was hoped that a test case would soon be heard. This approach meant external auditors did not incur legal costs in dealing with the objections on an individual basis. Questions were asked about the practical implications of BDO not being able to issue their audit certificate until they had concluded their work on the objection and also about the cost to the Council of BDO dealing with the objection so far. BDO replied that the costs to date amounted to approximately £2,000. A detailed breakdown would be provided to the Council in due course. In terms of not being able to issue an audit certificate, the audit was still open so it was not possible to advertise the audit was closed. The practical impact of this was limited though as, unlike in previous years, there was now a deadline for submitting further objections and this had passed.

Some Members commented that Medway had not been the only Council where an objection had been made and, given the amount of public money involved, the objection had been justified. BDO undertook to provide details of the numbers of LOBO objections submitted across the country.

A Member welcomed the fact that BDO had recognised that the finance team had significantly improved their close down processes and that working papers contained a substantially lower amount of errors than in the previous year.

With regard to the provision for Non Domestic Rates Appeals, BDO clarified that the issue here was about the provision set aside by the Council and was not an issue relating to the National Valuation Office. The Chief Finance Officer added that, as this provision had been classed as an unadjusted error, he

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would be looking to set a figure this year closer to what BDO considered a reasonable provision.

A Member asked if BDO still had concerns about the Council's use of resources. The Chief Finance Officer commented that BDO were highlighting in the annual audit letter that the sustainability of the budget was a risk which needed to be tested. The challenge for the Council was to be able to set a budget without using reserves.

### **Decision:**

The Committee agreed to note the content of the Annual Audit Letter for 2015/16.

## **580 Audit and Counter Fraud Update 1 September to 16 December 2016**

### **Discussion:**

Members considered a report which provided an update on the work, outputs and performance of the Audit and Counter Fraud Team for the period 1 September to 16 December 2016.

Members welcomed the new format and style of reporting, which they considered to be much clearer.

Due to a predicted shortfall in resources, it was proposed that two reviews should be removed from the Plan (reviews of Grant Payments to Voluntary Organisations and Customer Contact (Financial Assessments)). However, the team hoped to be able to deliver the remainder of the planned work during the year. A Member noted that the issue of grants to voluntary organisations was still important and, referring to an earlier fraud involving a voluntary organisation, queried whether Medway as a place had learned lessons from this. The Head of Audit and Counter Fraud Shared Service commented that this would be considered for inclusion in the next Plan and she would look at whether the wider issues raised could be incorporated. In response to a question, the Chief Finance Officer undertook to provide Members with details of how many voluntary organisations received grants from the Council and the value of these. In terms of why the customer contact (financial assessments) review was being removed, the Head of Audit and Counter Fraud Shared Service advised that other reviews in the Audit Plan related to the work of the Team and if any issues arose from this then the review would be added to the Plan for next year.

Regarding the waste management – refuse collection and recycling review, a Member queried the scope of this and whether it could look at some of the reputational issues for the Council if a contractor or one of its employees behaved in a way which damaged public confidence. The Head of Audit and Counter Fraud Shared Service advised that the scope had not yet been agreed but it was likely to focus on how effectively the council managed the contract.

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With regard to the Homelessness – Temporary Accommodation review, a Member queried how the review had concluded that there were suitable temporary accommodation options available when one third of properties used for temporary accommodation were not being actively monitored by Council. The Head of Audit and Counter Fraud Shared Service replied that the issue was that the record of properties monitored by the Council's private housing team was not being reconciled on a regular basis with the record of properties used by the homelessness team who placed people in temporary accommodation.

A discussion took place about Member access to the full reports of audit reviews. Following requests, it was agreed that once finalised, the report on Procurement would be sent to the Portfolio Holder for Resources and that the Homelessness – Temporary Accommodation review report would be sent to all Members of the Committee. A suggestion that reports be sent to Portfolio Holders and Opposition Spokespersons on an automatic basis would be discussed outside the meeting.

A Member expressed surprise that the names of people convicted of fraud were named in the report. Officers advised that people were only named if they had been convicted; that this information was already in the public domain and it was another means by which the Council could publicise that fraud had been successfully tackled.

### **Decision:**

The Committee agreed to:

- a) note the outputs and performance of the Audit & Counter Fraud Plan for Medway for the period 1 September to 31 December 2016, as detailed at Appendix 1;
- b) note the results of the review of the Audit & Counter Fraud Plan at section six of the Update report, and approve the removal of the review of Grant Payments to Voluntary Organisations and Customer Contact (Financial Assessments) from the Plan, and;
- c) ask that a copy of the final report into the Homelessness – Temporary Accommodation review be sent to Members of the Committee and the final report on the procurement review to the Portfolio Holder for Resources.

## **581 Review of Audit & Counter Fraud Quality Assurance & Improvement Programme**

### **Discussion:**

Members considered a report which presented the results of the review of the Audit & Counter Fraud Quality Assurance & Improvement Programme.

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### **Decision:**

The Committee agreed to approve the revised Quality Assurance & Improvement Programme presented at Appendix 1 to the report.

### **582 Audit and Counter Fraud Strategy - Review of Progress**

#### **Discussion:**

Members considered a report which provided an update on progress against the Audit & Counter Fraud Strategy 2016-2020 made by the team during 2016-17 to date.

A Member welcomed the importance given to investing in staff development for the Audit team through training and other opportunities and, in particular, that 106 days had been spent on training and development in 2016/17. Some concern was expressed about the proposal to carry out a 360 degree feedback exercise. Whilst this could be a valuable process it was not carried out in the Council on a consistent basis and there was a concern about how it might work in practice. In response, the Head of Audit and Counter Fraud Shared Service accepted it needed to be handled carefully but commented the team were very receptive to the principle.

In response to a query about the Audit team's involvement in the Digital Transformation programme, the Head of Audit and Counter Fraud Shared Service replied that she was a member of the Transformation Delivery Group and was looking to see how audit could provide an independent assurance of the programme.

A Member asked if there were any issues facing Gravesham Borough Council which could impact on the delivery of the Medway audit plan. The Head of Audit and Counter Fraud Shared Service advised that there were two separate audit plans for the two Councils which ensured resources were allocated to each council based on the shared service agreement. In the event of an unforeseen situation affecting Gravesham Borough Council which meant extra audit resources needing to be deployed, the Committee would be asked to approve any change to the Medway Audit plan (and vice versa should an unforeseen situation affect Medway).

#### **Decision:**

The Committee agreed to note the progress made by the Audit & Counter Fraud Team towards delivering its strategic objectives during the 2016-17 year to date.

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**Chairman**

**Date:**

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