

Medway Council
Meeting of Audit Committee
Tuesday, 21 March 2017
7.00pm to 8.00pm

Record of the meeting

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

Present: Councillors: Kemp (Chairman), Osborne and Tejan

Substitutes: Councillors:
Griffiths (Substitute for Maple)
Mackness (Substitute for Gulvin)

In Attendance: Alison Langridge, Audit Manager, BDO
Phil Watts, Chief Finance Officer
Perry Holmes, Chief Legal Officer/Monitoring Officer
Michael Turner, Democratic Services Officer
Katey Arrowsmith, Head of Audit and Counter Fraud Shared Service

851 Apologies for absence

Apologies for absence were received from Councillors Gulvin and Maple.

852 Record of meeting

The record of meeting of the Committee held on 10 January 2017 was agreed and signed by the Chairman as correct.

853 Urgent matters by reason of special circumstances

There were none.

854 Declarations of disclosable pecuniary interests and other interests

Disclosable pecuniary interests

There were none.

Other interests

Councillor Mackness disclosed an interest as Chairman of Medway Commercial Group (MCG) and stated that he would leave the room if there was to be any discussion on the issue of MCG's accounting arrangements.

Councillor Griffiths disclosed an interest as a Non-Executive Director of Medway Community Healthcare (MCH) and stated that he would leave the room if the review of arrangements to deliver the MCH's Equipment Service was discussed.

855 Annual External Audit Plan

Discussion:

Members considered a report which presented the Council's External Auditor's (BDO) plan for the audit of the accounts for the financial year 2016/17.

The Chief Finance Officer highlighted two issues. Firstly, in relation to the timetable for the production and approval of the 2016/17 accounts, that the final audit fieldwork would commence in early June 2017. This was a month earlier than last year and was part of the preparations for the statutory deadlines being brought forward next year. Secondly, he was pleased to note that BDO no longer considered the preparation of the financial statements to be a key risk, which was testimony to the hard work of the team.

A Member referred to the fact that planning materiality for the Council was based on 2% of average gross expenditure for the current and two preceding years (£11.7m) and queried whether it would be more appropriate if this was based on net expenditure and also whether there should be a different level for expenditure which was not directly controlled by the Council, such as schools funding. £11.7m was a high figure in respect of expenditure directly controlled by the Council and could have a potentially very significant impact on the authority. BDO advised that £11.7m was a high level figure and testing took place at lower levels (around £7-8m). Anything above 3% of the materiality level would be reported to the Committee. School funding was still part of the Council's accounts. In response a Member noted that £7-8m still represented a significant sum and risk, particularly in the light of the increasing difficulties in setting a balanced budget.

A Member referred to the requirement to value property, plant and equipment and queried how the Council's roads were valued. Another Member highlighted the risk of not having a true commercial valuation of the Council's property and assets, particularly in light of the Council's programme of rationalising its estate. The Chief Finance Officer undertook to provide a briefing note on the basis by which the Council valued its assets.

The approach to deciding risk in relation to non domestic rates appeal provision was queried. The Chief Finance Officer advised that in 2010 and 2015 appeals were backdated but as future appeals could only be made against the 2017 listings, the risks in the short term were not as great as the previous year. Appropriate provision for appeals would be made.

A Member asked what plans were in place to mitigate the risks around sustainable finances given concerns about the Council's resilience in the face

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of ongoing financial pressures, reductions in funding and demographic pressures. The Chief Finance Officer replied that there were non-earmarked general reserves of £8m. The Council's finances were the highest rated strategic risk and would be managed through the Medium Term Financial Plan process. The Council had a four year financial settlement so the level of revenue support grant funding for the next three years was known. BDO would be reviewing the Council's medium term financial strategy to assess the reasonableness of its assumptions and this would form part of its value for money opinion on the accounts. The majority of Council's that BDO audited also recognised risks around sustainable finance.

Decision:

The Committee:

- a) noted and accepted the proposed annual Audit Plan for 2016/17, and;
- b) requested a briefing note on the basis by which the Council valued its assets.

856 External Audit Grant Claim Report

Discussion:

Members considered a report which presented the work carried out by BDO, the Council's external auditor, in respect of the certification of grant claims for the financial year ended 31 March 2016.

The Chief Finance Officer drew Members' attention to the fact that the qualified audit certificate issued in respect of the housing benefit subsidy claim had identified errors totalling £3,149 against a total claim of £101,608,737, with the final payment to the Council being reduced by £466. BDO confirmed that the methodology and sample sizes were prescribed by Public Sector Audit Appointment Ltd (PSAA) and the Department of Works and Pension (DWP) and that there were no materiality levels. In response to a question about sample sizes, BDO advised that these were set at a sample of 20 cases for each benefit type but where errors were found then 40 samples were tested for each error. Members congratulated the finance team on the outcome and asked whether the methodology set by PSAA and DWP could be challenged at a national level. BDO advised that representations had been made on this point with no change to the process resulting, although representations would continue to be made.

Decision:

The Committee:

- a) noted the external auditor's grant claims and returns certification report for 2015/2016, as set out at Appendix 1 to the report, and;

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- b) congratulated the Chief Finance Officer and his team on their performance in managing housing benefit subsidy claims.

857 Audit and Counter Fraud Plan 2017-18

Discussion:

Members considered a report which presented the Audit and Counter Fraud Plan for Medway for 2017-18 for Members' approval.

With reference to a previous decision by the Committee (see minute no. 580) to remove the review of Grant Payments to Voluntary Organisations and Customer Contact (Financial Assessments) from the 2016-17 Plan, it was confirmed that both of these issues were considered in the development of the 2017-18 Plan. The first had not been included as it was not considered as high risk as other items included, but the second was part of the new Plan.

A Member asked if work on the Integrated Youth Support Service and Youth Offending Team could be added to the Plan, in particular to look at how these services could be better integrated into Early Years as early intervention was key to driving down costs in relation to looked after children. The possibility of the Head of Audit and Counter Fraud Shared Service becoming a Member of the Children's Transformation Board was also raised. The Head of Audit and Counter Fraud Shared Service agreed to discuss what specific measures the Team could add value to outside the meeting.

A Member suggested that Corporate Risk ratings should be included in the Plan as this would improve focus and allow a view to be taken on whether audit time was concentrated on the most important risks. It was also suggested that, where no audit work was being planned with regard to a corporate risk, then this should be indicated in the Plan. The Head of Audit and Counter Fraud Shared Service undertook to consider this when preparing the next quarterly report.

A Member queried whether the Head of Audit and Counter Fraud Shared Service was aware of any major risk at Gravesham Borough Council which could impact on the team's ability to deliver the Medway Plan. Members were advised that there were no areas of concern at Gravesham at present. The delivery of the Plan was carefully monitored so that the outcomes in both Plans were delivered. Subject to Member approval, the shared service agreement allowed for the Plan to be changed if an unexpected major issue arose at either Council.

In response to a question about the number of audit days in the Plan before the shared service was created, the Head of Audit and Counter Fraud Shared Service replied that the resource available for the previous Plan was about 1,000 days but that included non-productive time, which the current one did not. Overall the latest Plan included seven more pieces of audit assurance work than the previous one.

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Decision:

The Committee approved the Audit and Counter Fraud Plan for Medway for 2017-18, as set out in Appendix 1 to the report.

858 Audit and Counter Fraud Charter

Discussion:

Members considered a report which presented the Audit and Counter Fraud Charter for Members' approval. Changes to the Charter were highlighted, but the additions were generally just explanatory in nature.

Decision:

The Committee approved the Audit and Counter Fraud Charter, as set out at Appendix 1 to the report.

859 Dates of future meetings

The Committee noted that the provisional schedule of meetings for the 2017/18 municipal year (subject to confirmation at the Council AGM in May) was as follows:

29 June 2017 at 7pm
28 September 2017 at 7pm
9 January 2018 at 7pm
20 March 2018 at 7pm

Chairman

Date:

Michael Turner, Democratic Services Officer

Telephone: 01634 332817

Email: democratic.services@medway.gov.uk