

Medway Council
Meeting of Audit Committee
Thursday, 29 June 2017
7.00pm to 8.32pm

Record of the meeting

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

- Present:** Councillors: Gulvin, Maple, Osborne and Tejan
- Substitutes:** Councillors:
Hicks (Substitute for Kemp)
- In Attendance:** Katey Arrowsmith, Head of Audit and Counter Fraud Shared Service
David Eagles, Engagement Leader, BDO
Wayne Hemingway, Democratic Services Officer
Perry Holmes, Chief Legal Officer/Monitoring Officer
James Larkin, Audit & Counter Fraud Shared Services Manager
Jonathan Lloyd, Principal Accountant
Phil Watts, Chief Finance Officer

105 Election of Chairman

As the Chairman was not present, Members were asked to elect a Chairman for the meeting.

In addition, it was requested that agenda items 10 (Annual Governance Statement) and 11 (Revenue and Capital Outturn and Draft Statement of Accounts 2016/2017) be taken after agenda item 5 (External Audit Fee) to facilitate David Eagles' (BDO) attendance. This was agreed.

Decision:

The Committee agreed that Councillor Gulvin act as Chairman for this meeting.

106 Apologies for absence

An apology for absence was received from Councillor Kemp.

107 Record of meetings

The records of the meeting of the Committee held on 21 March 2017 and the Joint Meeting of Committees held on 17 May 2017 were agreed and signed by the Chairman as correct.

108 Urgent matters by reason of special circumstances

There were none.

109 Declarations of disclosable pecuniary interests and other interests

Disclosable pecuniary interests

Councillor Tejan declared an interest in agenda item 8 (Audit and Counter Fraud Annual Report 2016-17) because he is a Director at a company based at the Innovation Centre Medway (ICM). It was noted that he would withdraw from the meeting if there was any discussion on the ICM.

Other interests

There were none.

110 External Audit Fee

Discussion:

Members considered a report which set out the proposed External Audit fee for 2017/18, which was £142,451 for the core audit, housing benefit subsidy claim £9,188, teachers' pension return £4,200, and pooled housing receipts £3,200.

BDO advised on the Public Sector Audit Appointments (PSAA) process for the appointment of the Auditor for Medway Council by 31 December 2017.

A Member asked whether it was possible for fees to be reduced should the scope of the work undertaken by the Auditor be reduced. BDO advised that the National Audit Office was responsible for setting the scope of audit work and that this was reviewed on a regular basis.

A Member asked if the Housing Benefits subsidy claim information for 2017/2018 (page 19 of the Agenda) was now available. BDO advised that this information was not yet available but was likely to be similar to the 2016/2017 amount.

A Member asked how audit fees were calculated and how the fees for Medway compared with comparable Local Authorities. BDO advised that charges were set by the PSAA and were based on a number of factors including size of the Local Authority, risk levels etc. BDO also advised that under the new audit arrangements that there may be a reduction in audit fees.

Decision:

The Committee agreed to note the contents of the Fee Letter 2017/18.

111 Review of Audit Committee Terms of Reference

Discussion:

Members considered a report which reviewed the Terms of Reference of the Audit Committee, in accordance with CIPFA guidance.

A Member referred to the composition of the Audit Committee and noted that whilst he was aware that Local Authorities had different approaches to the inclusion of members of the Executive and Independent members, it would be useful to find out the current position around the county. The Head of Audit and Counter Fraud Shared Service undertook to look into this and provide a Briefing Note on this matter.

Decision:

- a) The Committee agreed that no amendments are required to the Committee's terms of reference and that the Committee continues to operate under the existing Terms of Reference.
- b) The Committee requested a Briefing Note on the current position of the inclusion of members of the Executive and Independent members on Audit Committees.

112 Treasury Management Outturn Annual Report

Discussion:

Members considered a report which gave an overview of treasury management activity during 2016/17. It was noted that this report would also be referred to Cabinet on 11 July 2017.

The Principal Accountant gave a detailed presentation of the main highlights of the report and also made a couple of corrections as follows:

Table 1 (page 38 of the Agenda) – add “4.22%” to the Rate column for Long Term Borrowing – PWLB/LOBO for the year ended 31/03/17.

Paragraph 8.5 (page 40 of the Agenda) – reference to 2016/17 should read 2017/18.

A Member referred to the tables set out in pages 40 and 42 of the Agenda (loans made to or from other Local Authorities) and requested that in future this information should include the total sums repaid.

A Member requested information on the financial relationship (excluding pensions) between Medway Council and Kent County Council and the Chief Finance Officer undertook to provide a Briefing Note on this matter.

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Decision:

- a) The Committee approved the treasury management outturn annual report and referred it to Cabinet.
- b) The Committee requested a Briefing Note setting out information on the financial relationship (excluding pensions) between Medway Council and Kent County Council.

113 Audit & Counter Fraud Annual Report 2016-17

Discussion:

Members considered a report regarding the Audit and Counter Fraud work completed during 2016-17. The report also presented the opinion of the Head of Audit and Counter Fraud Shared Service as Chief Audit Executive on the Council's internal control environment, as set out in page 50 of the Agenda.

A Member suggested that a joint meeting with Gravesham Borough Council's Audit Committee Members take place to discuss progress of the Shared Service. The Head of Audit and Counter Fraud Shared Service advised Members that an External Quality Assessment on the Shared Service was due to take place during 2017/2018 and that part of this process would include seeking both Medway's and Gravesham's Members' views on the progress of the Shared Service. In addition, the Chief Finance Officer advised that he had recently discussed the Shared Service with Gravesham's Section 151 Officer who had confirmed that he was happy with the Shared Service. It was also noted that Medway was now providing other services to Gravesham including the provision of a Shared Legal Service.

A Member sought clarification on whether the findings and recommendations from Internal Audit Assurance work was subsequently included in wider reviews with particular reference to the review of Homeless Temporary Accommodation (page 60) and the Homelessness Prevention Strategy, which was due to be considered by the Business Support Overview and Scrutiny Committee on 6 July 2017. The Head of Audit and Counter Fraud Shared Service advised that her team was engaged in a number of corporate projects, including the Homelessness Prevention Strategy, and that in addition, the team undertook a follow up of agreed recommendations, as highlighted in pages 91-94 of the Agenda.

Members suggested that relevant Cabinet Members and relevant Opposition Spokespersons should be advised of the outcomes of Internal Audit Assurance work prior to being formally reported to the Audit Committee.

A Member asked for further details of the Income Collection review (pages 57-58 of the Agenda) with reference to the level of refunds and the refunds policy. The Audit and Counter Fraud Shared Service Manager explained this mainly related to money laundering in respect of Council Tax refunds and that it was necessary to ensure that any refunds paid with regards to the overpayment of

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Council Tax must be to the same bank card to ensure compliance with money laundering legislation. Such sums involved were likely to be less than £5,000. The Audit and Counter Fraud Shared Service Manager also undertook to provide a Briefing Note on this matter.

A Member asked for further details of the Adult Social Care – Assessments and Reviews of Financial Support (pages 61-62 of the Agenda) review and in response the Head of Audit and Counter Fraud Shared Service stated that in relation to direct payments some individual sums may have been significant, however, work had been undertaken to improve procedures. She undertook to provide more detail via a Briefing Note on this matter.

A Member asked for further details of the Cyber Security review and in response the Head of Audit and Counter Fraud Shared Service gave details of the review which, for example, included ensuring that employees and contractors had the appropriate levels of access to the Council's networks and more widely, that the Council was a member of the Public Services Network (PSN) which included a compliance process for Local Authorities in delivering a safe network. Members had a wider discussion on business continuity arrangements and building security at Gun Wharf and recommended that the Business Support Overview and Scrutiny Committee be requested to consider a report on these matters.

A Member referred to the Adoption Services review (page 71 of the Agenda) and sought an update on the recommendations. The Audit and Counter Fraud Shared Service Manager advised that the follow up work on this review was currently in progress and was due to be completed by September 2017.

It was noted that the Head of Audit and Counter Fraud Shared Service had recently been appointed as the Head of Finance Strategy. The Committee thanked her for her work in her former role and wished her luck in her new role.

Decision:

- a) The Committee endorsed the work undertaken by the Audit and Counter Fraud Shared Service for Medway during 2016-17 in providing an effective service to the Council.
- b) The Committee endorsed the opinion on the Council's internal control environment provided by the Head of Audit and Counter Fraud Shared Service.
- c) The Committee noted the request for a joint meeting between Medway Council's and Gravesham Borough Council's Audit Committee members on the progress of the Shared Service and noted that they would be able to provide comments on the progress of the Shared Service as part of the External Quality Assessment which would take place during 2017/2018.
- d) The Committee requested that consideration be given to relevant Cabinet Members and relevant Opposition Spokespersons should be advised of the

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outcomes of Internal Audit Assurance work prior to being formally reported to the Audit Committee

- e) The Committee requested Briefing Notes on i) further details of the Income Collection review and ii) further details of the Adult Social Care – Assessments and Reviews of Financial Support review.
- f) The Committee requested that the Business Support Overview and Scrutiny Committee consider a report on the Council's business continuity arrangements and building security at Gun Wharf.

114 Code of Corporate Governance

Discussion:

Members considered a report which sought their comments on a revised Code of Corporate Governance prior to consideration and approval at Council.

Decision:

The Committee agreed to recommend the revised Local Code of Corporate Governance, as set out in Appendix 2 to the report, to Cabinet for consideration in advance of approval by Council and incorporation into the Constitution.

115 Annual Governance Statement 2016/17

Discussion:

Members considered a report which explained the requirements for reporting and approving an Annual Governance Statement (AGS) covering the financial year 2016/17, and to seek comments and approval of the Statement. The Chief Legal Officer highlighted a number of matters within the AGS.

A Member referred to those matters in which the Council was a partner, for example, the Kent and Medway Sustainability and Transformation Plan (paragraph 5.1.2 of the AGS), and that the AGS should reflect the Council's responsibilities on such matters accordingly. The Chief Legal Officer advised that inclusion of the term "regularly monitored at a political and officer level" within paragraph 5.1.2 would satisfy this request.

A Member referred to paragraph 4.1.2 (b) of the AGS and asked what financial contribution Medway Norse and Medway Commercial Group were making to the Council. Officers advised that Medway Norse had consistently met its income targets and had made capital investment which may not have been possible by the Council whilst Medway Commercial Group had reduced the budgeted subsidy from the Council.

Decision:

The Committee approved the Annual Governance Statement 2016/17 subject to the inclusion of the term “regularly monitored at a political and officer level” within paragraph 5.1.2 to reflect the Council’s supporting role in a number of transformative programmes.

116 Revenue and Capital Outturn and Draft Statement of Accounts 2016/2017

Discussion:

Members considered a report regarding the final revenue and capital outturn position for the financial year ended 31 March 2017 which would form part of the Council’s statement of accounts, which accompanied the report.

An addendum report provided details of some minor amendments to the draft Statement of Accounts 2016/2017.

The Chief Finance Officer referred to the underspend on the revenue budget of £217,000 and gave details of the four main sections of the draft Statement of Accounts.

A Member sought an explanation to the variances in the earmarked reserves, with particular reference to unusable references between 2015/2016 to 2016/2017 as set out on page 162 of the Agenda. Members were advised that a breakdown of unusable reserves was set out in Note 36 on page 237 of the Agenda.

A Member referred to the challenge of a shorter deadline for the production of the draft Statement of Accounts 2016/2017 and in response, the Chief Finance Officer advised Members that he had relied on the goodwill of his team in finalising the draft Statement of Accounts 2016/2017, including staff working longer hours and that the completion of this work had reflected a tremendous achievement.

A Member referred to the overspends in Children and Adults Services Directorate and asked what steps were being taken to address this. The Chief Finance Officer referred to management action which had been taken during 2016/2017 and that a full-year effect would be reflected during 2017/2018. The effect of this action would be reflected in the Revenue Budget Monitoring Quarter 1 report which would be considered by the Cabinet in August 2017.

A Member referred to the outturn figures for Sport, Leisure, Tourism and Heritage and sought clarification on the details of the £520,000 underachievement of income in Medway Leisure and the £202,000 saving in Medway Sports. The Chief Finance Officer undertook to provide further information on this in a Briefing Note.

A Member referred to the reduction in pension liabilities and the Chief Finance Officer undertook to provide further information on this in a Briefing Note.

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A Member referred to the issue of liquidity risk in relation to short term borrowing and in response the Chief Finance Officer advised that this was not considered a risk but rather a policy which was pursued based on interest rate projections.

Decision:

- a) The Committee noted the revenue and capital outturns as reported and approved the draft statement of accounts for 2016/2017.
- b) The Committee placed on record its thanks to staff who had produced the draft Statement of Accounts 2016/2017 in a shorter timescale as now required by the CIPFA Code of Practice on Local Authority Accounting 2016/2017.
- c) The Committee requested a Briefing Note on (i) details of the £520,000 underachievement of income in Medway Leisure and the £202,000 saving in Medway Sports and (ii) the reduction in pension liabilities.

Chairman

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