

Medway Council
Meeting of Audit Committee
Thursday, 28 September 2017
7.00pm to 8.30pm

Record of the meeting

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

- Present:** Councillors: Kemp (Chairman), Gulvin, Maple and Tejan
- Substitutes:** Councillors:
Johnson (Substitute for Osborne)
- In Attendance:** James Larkin, Audit & Counter Fraud Shared Services Manager
Phil Watts, Chief Finance Officer
David Eagles, Engagement Leader, BDO
Katey Arrowsmith, Head of Finance Strategy
Jonathan Lloyd, Principal Accountant
Michael Turner, Democratic Services Officer
Judith Edmonds Magee, Technical Accountant
Andy McNally-Johnson, Tehnical Accountant

328 Apologies for absence

An apology for absence was received from Councillor Osborne.

329 Record of meeting

The record of the meeting of the Committee held on 29 June 2017 was agreed and signed by the Chairman as correct.

330 Urgent matters by reason of special circumstances

The Chairman reported that he had agreed to accept the Annual Governance Report 2016/17 (agenda item no. 6) as a matter of urgency, as permitted under section 100B of the Local Government Act 1972, because the next meeting of this Committee would not take place until 9 January 2018 and the issues raised in the Council's External Auditor's Annual Governance Report must, in accordance with the Accounts and Audit Regulations 2015, be considered by this Committee prior to publication of the Statement of Accounts by 30 September 2017. The report could not be despatched with the agenda due to disruptions to the Council's ICT systems during 20 September.

331 Declarations of disclosable pecuniary interests and other interests

Disclosable pecuniary interests

There were none.

Other interests

There were none.

332 Review of Risk Management

Discussion:

Members considered a report which gave an update on the progress of the Council's risk management activities.

A Member asked if details, including examples of agenda items, could be provided of the approach to risk management by Medway Norse, Medway Commercial Group and the newly agreed Housing Company.

Another Member commented that, based on his experience, Medway Norse used a detailed, balanced score card to assess operational risks. He also considered that the Council's approach to risk management was good. The key though was that risk management needed to be embedded in an organisation and one way the Council did this was to require all committee reports to contain a section on risk management.

Reference was made to the recent disruption to the Council's ICT systems and a Member stated the lessons learned report could be made available to the Committee.

Referring to the introduction of ratios in the risk matrix to quantify the likelihood of risks, a Member commented on the subjective nature of this and pointed to the recent audit review of risk management which found inconsistencies in how service managers rated risks. In response the Audit and Counter Fraud Shared Service Manager commented that the inconsistencies highlighted by the audit review were more about how risks had been recorded. Training on that issue would be provided for service managers.

Decision:

The Committee agreed to:

- a) note progress on the Council's risk management activities, and;
- b) request a briefing note on the approach to risk management by Medway Norse, Medway Commercial Group and the Housing Company, as described above.

333 Annual Governance Report 2016/17

Discussion:

Members considered a report on the issues raised in the Council's External Auditor's Annual Governance Report, which incorporated the findings following the 2016/17 audit of the Statement of Accounts.

The Accounts and Audit Regulations 2015 required that the Audit Committee consider these issues prior to publication of the Statement of Accounts by 30 September 2017.

The Engagement Leader, BDO went through with Members the key findings of the Annual Governance Report. He anticipated that an unqualified opinion would be issued in relation to the financial statements. He added that the current statement of accounts reflected a history of steady improvements by the Council in how the accounts were produced. Members welcomed and agreed with that assessment.

A Member asked for an update on progress in dealing with the objection to the 2015/16 accounts regarding the Council's use of Lender Option Borrower Option (LOBO) loans. BDO advised that it had been agreed nationally to select one of the councils who had received this objection as a test case before dealing with the remaining objections. In response to a further question about the possible implications for the Council's finances and reputation, BDO commented that, as the test case had not concluded, there had been no assessment yet on what the risks might be. The Chief Finance Officer added that the Council had approximately £100m in LOBO loans so there was a potential risk to the authority.

A Member referred to non-domestic rating appeals and the risks associated with having three different types of appeals with varying degrees of liability to the Council. He asked if representations on this point were being made at a national level. The Chief Finance Officer commented that changes to the appeals process meant there would be fewer speculative appeals. However, the uncertainty around 100% business rate retention added a further complication.

In response to a question relating to the Whole of Government Accounts, BDO advised that the Council's failure to meet the deadline for submitting the unaudited Data Collection Tool to HM Treasury and auditors by 7 July 2017 did not have any significant impact.

Decision:

The Committee agreed to:

- 1) note the issues raised and judgements made by the Auditor as presented in Appendix 1, and to agree the proposed response as set out at Appendix II to the External Auditor's Annual Report to the Audit Committee;

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- 2) approve the Statement of Accounts (Appendix 2), and;
- 3) agree the Management Representations Letter, attached at Appendix VI of the External Auditor's Annual Report.

334 Appointment of External Auditor

Discussion:

Members considered a report which presented the outcome of the process to appoint an external auditor for the Council from 2018/19.

Grant Thornton (UK) LLP had been appointed as the Council's auditor for five years from 1 April 2018. In response to a question about the handover process, BDO commented that there was a clear and well established process in place for a transition from one external auditor to another. The Chief Finance Officer added that he would meet with the new team in advance of 1 April 2018.

Members thanked David Eagles for his excellent support and clear guidance over the years.

With regard to the two outstanding audit certificates, BDO anticipated these would be resolved prior the end of the next year's audit.

Decision:

The Committee agreed to note the appointment by PSAA of Grant Thornton (UK) LLP as the auditor for Medway Council for a five year period from 1 April 2018.

335 Treasury Management Strategy Mid Year Review Report 2017/2018

Discussion:

Members considered a report on the mid year review of the Treasury Management Strategy 2017/18.

A Member asked what impact any increase in inflation might have on the strategy. Officers advised that the main impact would be the effect on interest rates and the Council's borrowing activity. The Council was actively monitoring the situation and taking advice from its advisors, Capita.

In response to a question about the possibility of investing in local authority pension funds, the Committee was advised that no such discussion had taken place. Pension funds invested in equities and bonds and the Council's approach to investing was more cautious with no wish to invest in equities. It was not felt there was much scope to invest in pension funds and any decision to do so would require a change in policy.

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Referring to the good performance of the treasury management team, a Member asked if it might be possible for the Council to offer its services to other Councils. The Chief Finance Officer considered this was unlikely given the relatively small size of the Treasury Management team and the fact that the team were also responsible for other matters such as the preparation of the statement of accounts. In terms of the Council's relatively good performance, this was in part due to loans to other councils with interest rates of over 2%. Some of these loans were due to mature soon and given the much lower interest rates now available, this would lead to a reduction in performance.

Decision:

The Committee agreed to note the report.

336 Audit and Counter Fraud Update to End August 2017

Discussion:

Members considered a report which provided an update on the work, outputs and performance of the Audit & Counter Fraud Team for the period 1 April to 31 August 2017.

Members discussed the following issues:

Notification to Cabinet Members and Opposition Spokesperson of outcomes of Internal Audit assurance work – in response to whether the outcome of the reviews mentioned in the report had been shared with these members, officers advised that they would revisit the proposals for sharing reports.

Incidents of fraud in satellite offices – in response to an observation that fraud appeared to be more common in satellite offices, officers advised that thefts in satellite offices tended to be opportunistic in nature and this was made easier due to fewer numbers of staff being around. However, this was an issue facing local government generally and officers did not feel there was a cultural issue in Medway to address.

Audit review of the risk management framework – following a query about the implications arising from one service not providing evidence of a service plan, Members were advised that the issue had been that the format of the service plan did not follow corporate requirements. The importance of this had since been emphasised at a corporate level and officers were confident this issue would not re-occur.

Impact of welfare reform - in response to a question whether any preparatory work by the Council was underway, the Head of Finance Strategy replied that significant work to prepare for this was taking place but it had not been felt that there was a need for any internal audit activity.

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Heritage buildings audit review - in response to a query, it was clarified that the report should have said that the recommendations were not yet due for implementation.

Decision:

The Committee agreed to note the outputs and performance of the Audit & Counter Fraud Plan for Medway for the period 1 April to 31 August 2017, as detailed at Appendix 1 to the report.

337 Whistleblowing, Anti Bribery and Money Laundering Policies - Report on Instances September 2016 -September 2017

Discussion:

Members considered a report on the nature of concerns raised, between September 2016 and September 2017, under the Council's whistleblowing, Anti- Bribery and Anti-Money Laundering Policies.

Referring to an earlier decision (minute no. 332) to request a briefing note on the approach to risk management by Medway Norse and Medway Commercial Group, it was further agreed that this should also include details of their whistleblowing policies.

Decision:

The Committee agreed to note the report and request a briefing paper on the whistleblowing processes in place at Medway Norse and Medway Commercial Group.

Chairman

Date:

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