

**Medway Council**  
**Meeting of Audit Committee**  
**Tuesday, 9 January 2018**  
**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: Kemp (Chairman), Gulvin, Maple and Osborne

**Substitutes:** Councillors:  
Etheridge (Substitute for Tejan)

**In Attendance:** James Larkin, Head of Audit and Counter Fraud  
Perry Holmes, Chief Legal Officer/Monitoring Officer  
Katey Arrowsmith, Head of Finance Strategy  
David Eagles, Engagement Lead, BDO  
Michael Turner, Democratic Services Officer  
Jonathan Lloyd, Principal Accountant

**617 Apologies for absence**

An apology for absence was received from Councillor Tejan.

**618 Record of meeting**

The record of the meeting of the Committee held on 28 September 2017 was agreed and signed by the Chairman as correct.

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

There were none.

**620 Disclosable Pecuniary Interests and Other Significant Interests**

Disclosable pecuniary interests

There were none.

Other interests

There were none.

**621 Annual Audit Letter 2016/17**

**Discussion:**

Members considered a report regarding the work carried out by BDO, the Council's external auditors, in respect of the 2016/17 financial year.

The Head of Finance Strategy referred to the latest report from Public Sector Audit Appointments Ltd which summarised the results of auditors' work at local government bodies for 2016/17 and listed those bodies across the country where the auditor had issued a qualified opinion, which had not been the case at the Council. She undertook to ensure Members were sent a copy of the report.

A Member asked if BDO could comment on the common factors which led to a qualified conclusion on an authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion') and queried whether political decisions or direction were looked at. BDO advised that they focused on arrangements in place to secure VFM and, as part of that, looked at decision making arrangements (but not individual decisions or political direction), partnership working and the deployment of resources. For a qualified opinion to be issued then there would have to be significant failings in these areas.

With regard to the risk in provision for non domestic rates appeals, a Member asked if it was common to use consultants and if this risk was shared across councils. BDO advised that this was a common risk for councils and Medway was not alone using an external company for assistance in assessing provision. Officers clarified that the Chief Finance Officer had made a judgement about what provision to make, taking into account that if a larger sum was set aside then this would impact on what was available to spend on services. Inclusion in the 100% business rate retention pilot would also have an impact on provision, but the scale of this had not yet been determined.

A Member asked if there had been any update 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 the test case on this was expected to conclude fairly quickly.

A Member referred to the misstatements totalling £2.5m and asked what the reasons for this were and whether any improvements had been identified. BDO advised that this was really an issue about timing and where these sums appeared on the balance sheet and did not represent additional funds for the Council.

Referring to the statement that no significant deficiencies in internal controls had been found, a Member queried what discussions about improvements had taken place with management. BDO clarified that these were detailed in the action plan that had been considered at the last meeting.

**Decision:**

The Committee agreed to note the content of the Annual Audit Letter for 2016/17.

**622 Treasury Management Strategy 2018/2019**

**Discussion:**

Members considered a report which presented the Council's Treasury Management Strategy for the 2018/2019 financial year. The Treasury Management Strategy incorporated within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.

Members discussed the following issues:

**Investments in property** – given the possibility of a crash in property values, a Member queried what the appropriate proportion of the council's investments should be in property funds and whether there were plans to increase this proportion, making the Council above average in comparison with other councils. Officers responded that figures for other councils on this were not available. The Council had invested approximately £23m in property funds, which was considered to be a relatively small proportion of the overall size of the Council's assets. There was an inherent risk in investing in property and there was a view amongst some experts that all asset classes were currently over valued.

**Country limits** – noting that in previous years country limits had been higher, a Member queried why the Council was lowering limits. The Committee was advised that the Strategy only allowed investments in countries that met the minimum criteria based on advice from external advisors. Country ratings would change over time. At present no investments were made outside the United Kingdom. Accepting that this was therefore a theoretical issue, a Member suggested that the minimum sovereign credit rating should be set at AA and not AA-. Members were advised that the Council's treasury management advisers considered the strategy reflected a fairly prudent approach, bearing in mind the Council's risk appetite.

**Borrowing** – a Member asked how much more the Council was borrowing compared to last year and whether this was sustainable over the medium term. Officers advised that there was approximately £50m of short term borrowing and this figure had increased in recent years as a result of decisions to invest in property funds and also due to using reserves.

**LOBOs (borrowing under lender's option/borrower's option)** – a Member suggested that the Strategy be amended to make it clear that the Council would not invest in LOBOs in future. Recognising that these products were not currently available this would send a clear statement about the Council's position. Other Members commented that the test case into the objections

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about LOBOs had not been resolved so there was the potential for these products to come back on the market and by amending the policy the Council would be tying its hands, albeit just for the 12 month lifetime of the Strategy.

**Training for Members** – noting that the CIPFA Code required that members with responsibility for treasury management receive adequate training in treasury management; Members asked that training be provided. Reflecting on previous training events, the consensus was it would be preferable for a half day session facilitated by a different external advisor.

### **Decision:**

The Committee agreed to note the report.

## **623 Audit and Counter Fraud Update 1 September to 30 November 2017**

### **Discussion:**

Members considered a report on the work, outputs and performance of the Audit and Counter Fraud Team for the period 1 September to 30 November 2017.

Referring to previous discussions about notification to Cabinet Members and Opposition Spokespersons of the outcomes of Internal Audit assurance work (see minute no 336), Members were advised that Directors were now asked to forward copies of reports to these Members when they received the final report from Internal Audit.

Members discussed whether to change the current format of the report which showed items previously reported to the Committee in italics. It was agreed that the title of reviews be reported in future but not the detail.

The following issues were discussed:

**Payments to foster carers** – reference was made to weaknesses in the accuracy and processing of payments to foster carers and the resulting potential risk that some foster carers may move to a private agency. Following a suggestion that this issue be referred to the Children and Young People Overview and Scrutiny Committee, it was decided that instead the next report should include more detail on progressing the recommendations in the action plan

**Child Sexual Exploitation (CSE)** – a Member queried whether there was the potential for duplication of effort with this review given the Safeguarding Children Board reported to the Health and Wellbeing Board and the Children and Young People Overview and Scrutiny Committee on this issue. Members were advised that, given the Council's statutory obligations in relation to CSE, the review had been included as internal audit had not previously looked at arrangements in place in Medway to identify and prevent CSE.

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**Risk management framework** – a Member asked for more detail on the finding that seven out of nine service managers' samples had not provided evidence of their service plans. An undertaking was given to provide the Members with the report of this review.

**Shared HR Service with Gravesham** – a Member noted that proposals for a shared HR service with Gravesham Borough Council were due to come to Cabinet. Whilst not against this in principle there were some possible direct and indirect impacts on the Audit Committee to be conscious of. A shared service could lead to resources being stretched. Failings reported to the Committee in the past were sometimes a result of a lack of robust HR policies. Another Member made the point that shared services added greater resilience as there was a larger team to fall back on.

### **Decision:**

The Committee agreed to:

- a) note the outputs and performance of the Audit and Counter Fraud Plan for Medway for the period 1 September to 30 November 2017 as detailed at Appendix 1 to the report, and;
- b) approve the amendments to the 2017-18 work plan as detailed in Section 6 of Appendix 1 to the report.

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

### **Discussion:**

Members considered a report which provided an update on progress against the Audit and Counter Fraud Strategy 2016-2020 made by the team during 2017-18 to date.

With regard to the first external assessment of the Audit and Counter Fraud Shared Service, it was proposed that the results of this should be reported to an informal meeting of both councils' Audit Committees.

### **Decision:**

The Committee agreed to note the progress made by the Audit and Counter Fraud Team towards delivering its strategic objectives during the 2017-18 year to date.

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### **625 Review of Audit and Counter Fraud Quality Assurance and Improvement Programme**

#### **Discussion:**

Members considered a report on the results of the review of the Audit and Counter Fraud Quality Assurance and Improvement Programme.

Following clarification from BDO that external audit did not provide an opinion but rather reported by exception, officers agreed to review the wording in relation to Indicator PM24.

#### **Decision:**

The Committee agreed to approve the Audit and Counter Fraud Quality Assurance and Improvement Programme, subject to the wording of Indicator PM24 being revised.

**Chairman**

**Date:**

**Michael Turner, Democratic Services Officer**

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