

Medway Council
Meeting of Audit Committee
Monday, 30 July 2018
7.00pm to 8.03pm

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:
Fearn (Substitute for Tejan)

In Attendance: Katey Arrowsmith, Head of Finance Strategy
David Eagles, Engagement Lead, BDO
Judith Edmonds Magee, Technical Accountant
James Larkin, Head of Audit and Counter Fraud
Jonathan Lloyd, Principal Accountant
Andy McNally-Johnson, Tehnical Accountant
Liana Nicholson, BDO LLP
Michael Turner, Democratic Services Officer
Vicky Nutley, Assistant Head of Legal Services
Phil Watts, Chief Finance Officer

207 Apologies for absence

An apology for absence was received from Councillor Tejan.

208 Record of meeting

The record of the meeting of the Committee held on 27 June 2018 was agreed and signed by the Chairman as correct.

209 Urgent matters by reason of special circumstances

There were none.

210 Disclosable Pecuniary Interests and Other Significant Interests

Disclosable pecuniary interests

There were none.

Other significant interests (OSIs)

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There were none.

Other interests

There were none.

211 Audit Completion Report 2017/18 Statement of Accounts 2017/18

Discussion:

Members considered a report detailing the issues raised in the Council's External Auditor's Audit Completion Report, which incorporated the findings following the 2017/18 audit of the Statement of Accounts. Members also considered an addendum report detailing amendments to the Statement of Accounts as well as a paper tabled at the meeting setting out further amendments.

As this would be the last year BDO would be auditing the Council's accounts under the current contract, Members and Officers thanked David Eagles and his team for their support and advice over recent years.

BDO explained the key audit findings, as set out in the report, and advised that most of the outstanding matters had been resolved and they anticipated issuing an unmodified opinion on the accounts, adding that the confirmation letter from Barclays Bank had not yet been received.

Members discussed the following issues:

Disclosure of Exit Packages - a Member noted that the exit packages disclosure note had not been prepared in line with the Code requirements and asked if the Council was comfortable with the current position and whether the issue raised by BDO was unique to Medway. BDO advised that the issue was about in which financial year the disclosures should be made. The Chief Finance Officer commented that once an agreement had been reached about an employee leaving the organisation, then provision was made in the accounts for that even if the payment was to be made in the following financial year. He was therefore confident that the financial information was reported correctly. The Chief Finance Officer confirmed that all exit packages were included in the accounts.

S106 developer contributions - BDO had concluded that Section 106 developer contributions should be recognised on receipt but accepted it was a subjective judgement as to when to recognise grants as income. The Chief Finance Officer clarified that the Council's position was to recognise these contributions once they were used due to the risk, however small, that the contribution may have to be returned to the developer. This difference of opinion was not uncommon across councils. The Council's position had been strengthened by recent decisions by the Planning Committee to tighten the timescales and conditions for S106 contributions

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Related party transactions - a Member referred to the finding that there was a risk some related party transactions may not be disclosed in the accounts as a result of Member declarations of interests not being received. Officers assured Members that the issue was not due to Members not having disclosed interests on time but a matter of internal communications.

Reserves – noting that reserves had reduced by one third over the last two years, some Members queried what BDO considered to be an acceptable level of reserves and at what level reserves had to reduce to for this to be a concern for BDO. BDO advised that the level of reserves was a matter for each Council having regard to local circumstances and risks and there was no set figure/percentage for an acceptable level of reserves. When looking at reserves, BDO focused on how reserves were being managed. The Chief Finance Officer commented that a large part of reserves were school balances and there was a high number of academies in Medway which had led to a reduction in reserves. Reserves had also reduced due to the increasing capital programme, adult social care pressures (although the adult social care precept had reduced that pressure) and the reduction in revenue support grant. The current Medium Term Financial Strategy (MTFS) contained a reserves strategy, which would be strengthened when the next MTFS was developed.

A Member queried how this explanation sat with BDO's view that there was little margin available in reserves and balances to support any further revenue budget overspends or slippage on savings plans. BDO advised that the Council's absolute level of reserves in isolation was at the lower end but this had remained fairly static for a number of years. The point about management needing to revisit reserves should be seen in the context of the financial constraints facing the Council and the increasing difficulties in identifying new efficiencies – issues which should be reflected by management in the MTFS when decisions were taken on the appropriate level of reserves.

In response to a question, the Chief Finance Officer commented he was unable to quantify at the meeting the extent to which reserves had been used to help balance the budget.

Valuation of Property, Plant and Equipment – BDO clarified that heritage assets were not within the scope of this element of the audit.

Non Domestic Rates (NDR) appeals provision – a Member asked if the pressures were due to historic appeals and whether there was still a backlog of outstanding appeals. The Chief Finance Officer commented that there was a difference of view as to how provision for appeals should be made in the accounts. He considered the position he had taken had been vindicated by the fact that there had been no unadjusted errors. He advised that the most significant appeals in terms of value had now been settled.

Objection to accounts relating to the Council's use of Lender Option Borrower Option (LOBO) loans – in response to a request from a Member for an update on this objection to the accounts, BDO advised that it would be inappropriate to provide the conclusions to the objection in a public meeting

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until the person who had made the objection had been given an opportunity to receive feedback and ask questions of BDO. BDO confirmed this was still the case even though the objector referred to was the Member of the Committee who had requested the update. If the objector was to request a formal Statement of Reasons then this would cost approximately £3,000, which would have to be met by the Council. The objector would then be entitled to appeal the auditor's decision on the objection. BDO would complete the work on this objection and be responsible for issuing the audit certificate.

Financial Liabilities – in response to a query about the difference between the carrying amount and the fair value, officers advised that the former was the amount held in the balance sheet and the latter the amount needed to repay the lender if the loan was repaid early.

Interest rates and borrowing - a Member asked whether the Council expected interest rates to rise and how this impacted on decisions to borrow. Officers advised that they expected interest rates to rise over time. Borrowing was on the basis of need but was not possible more than two years in advance of need. The Chief Finance Officer commented that the Council may look to move some short term borrowing to longer terms to enable a controlled change in debt profile, although this change would impact on the revenue budget.

Decision:

The Committee agreed to:

- a) note the issues raised and judgements made by the Auditor as presented in Appendix 1 to the report, and agree the proposed response as set out at Appendix II to the External Auditor's Audit Completion Report;
- b) approve the Statement of Accounts as set out in Appendix 2 to the report and as amended by Appendices 1-3 of the addendum report (Supplementary Agenda No. 1) and also the additional amendments tabled at the meeting.
- c) agree the Management Representations Letter, attached at Appendix VI of the External Auditor's Annual Report.

212 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 2017.

BDO advised that a report would be submitted to the Committee later in the year on the certification of benefits claims for 2017/18.

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Decision:

The Committee agreed to note the external auditor's grant claims and returns certification report for 2016/2017, as set out at Appendix 1 to the report.

Chairman

Date:

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