

**Medway Council**  
**Meeting of Audit Committee**  
**Thursday, 27 September 2018**  
**7.02pm to 9.08pm**

**Record of the meeting**

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

**Present:** Councillors: Kemp (Chairman), Gulvin, Maple, Osborne and Tejan

**In Attendance:** James Larkin, Head of Audit and Counter Fraud  
Perry Holmes, Chief Legal Officer/Monitoring Officer  
Katey Durkin, Head of Finance Strategy  
Michael Turner, Democratic Services Officer

**370 Apologies for absence**

There were none.

**371 Record of meeting**

The record of the meeting of the Committee held on 30 July 2018 was agreed and signed by the Chairman as correct.

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

There were none.

**373 Disclosable Pecuniary Interests and Other Significant Interests**

Disclosable pecuniary interests

There were none.

Other significant interests (OSIs)

There were none.

Other interests

Councillor Gulvin disclosed that he was a Governor of Oaklands Primary School which was mentioned in agenda item no. 5 (Audit and Counter Fraud Update 1 April 2018 – 31 August 2018.)

**374 Audit and Counter Fraud Update 1 April 2018 - 31 August 2018**

**Discussion:**

Members considered a report which provided an update on the work, outputs and performance of the Audit and Counter Fraud Team for the period 1 April to 31 August 2018.

The following issues were discussed:

**Circulation of audit reports to Members** – it was suggested that full audit reports also be circulated to the Chairman of the Audit Committee, the relevant Portfolio Holder and the opposition spokesperson on the Committee.

**Ethics review** – regarding the area of improvement identified relating to the review and circulation of policies to ensure staff had read and understood appropriate policies, it was suggested that this needed to be better embedded into the employee induction scheme.

With regard to the recommendation relating to gifts and hospitality, a Member suggested that in the interests of transparency and also to achieve consistency with the requirements for Members to disclose gifts and hospitality, senior officers should also be required to publicly disclose and publish gifts and hospitality. It was further suggested that the level for this should be set at the threshold for senior officer remuneration disclosure. It was further suggested that a more consistent approach to the registering of gifts and hospitality across the Council should be sought. Officers advised that the recommendations in the audit report were designed to address the inconsistencies referred to. The Chief Legal Officer undertook to report back on this issue and would also look at the approach adopted by other councils as well as the issue of Council employees appointed to serve as Directors. In relation to the latter issue, a Member suggested Council owned companies should be prohibited from offering hospitality to council employees.

**Medway Commercial Group (MCG)** - a Member expressed concern that the provision of governor services by Medway Commercial Group was now being delivered by Kent County Council. Therefore effectively a company controlled by the Council had decided to cease providing a council service without any apparent democratic process or oversight. It was queried what had happened to the staff who had TUPE'd over from the Council to MCG. Another concern was that MCG could possibly decide to stop providing the other 5 council services it had been commissioned to deliver, none of which were statutory and the ability of the Council to prevent this happening was queried. The Chief Legal Officer advised that the Council had established MCG as a fully commercial operation with a degree of commercial freedom to make decisions about services that did not apply in the case of Medway Norse or the Medway Development Company. Scrutiny of MCG took place via Overview and Scrutiny and performance reports were considered by Cabinet. In response a Member noted that there had been no reference to this service no longer being delivered

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in any reports so no pre-decision scrutiny had been possible. The situation regarding staffing was not known. Further information was requested on the MCG decision making process and whether any discussions about this decision had taken place with the Council and whether any detailed discussions were taking place with schools about the change.

Noting that the audit report had concluded that the financial relationship between MCG and the Council was weak, a Member queried how that had come about when it was a council owned company and asked for further information on this issue.

**CCTV** – a Member referred to the expected report on the review of CCTV provision by MCG and noted that this was a service provided by an arm's length company which involved the monitoring of citizens and queried whether MCG had made any operational decisions which the Council was unaware of.

**Deferral of audit review of Looked after Children Reviews** – a Member expressed some concern that such a high profile issue had been deferred and the message this could send. In response officers undertook to look into whether a member of the Audit and Counter Fraud Team could join the project group set up to monitor the action plan and report back to the Committee.

**Shared service with Gravesham Borough Council** – in response to a query the Head of Audit and Counter Fraud advised that he was not aware of any significant issues affecting Gravesham Borough Council which could impact on the delivery of the audit plan by the shared service.

**IT asset management** – in response to a query officers advised that the review would include software as well as hardware but not cover business continuity arrangements.

**Non-payment of Council Tax** – a Member asked what steps the Council took to publicise prosecutions for non-payment of Council Tax. Officers advised that any successful prosecutions for fraud were publicised by the Council. Cases on non-payment which were not a result of fraud were not publicised but the Council had collected an additional £68,000 of Council Tax in the previous year through proactive work.

**Management responses to audit recommendations** – regarding the references to no management response to outstanding recommendations in some reviews, the Head of Audit and Counter Fraud reported that monthly reminders were sent. The position in the report had probably been affected by some managers being on annual leave for summer holidays and unable to respond in time for the deadline for the report.

**Implementation of recommendations** – concern was expressed at the number of outstanding recommendations, in particular in relation to the review of child sexual exploitation. The Head of Audit and Counter Fraud Manager advised that future update reports to the Committee would include an update

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from the service where recommendations were still outstanding more than 6 months after their implementation date.

**Traded Services (staffing agency)** – a Member noted that the £1m savings assumption would not be achieved and expressed concern that similar assumptions were being built into next year's budget. The Head of Finance Strategy explained that the business case was robust but during the transfer process, many of the agency staff were offered permanent contracts and this reduced the levels of income accordingly leaving a budget pressure. Going forward work had started earlier on the Medium Term Financial Strategy and this included a more detailed look at the assumptions being built into the draft budget.

### **Decision:**

The Committee agreed to:

- (1) note the outputs and performance of the Audit and Counter Fraud Plan for Medway for the period 1 April to 31 August 2018 as detailed at Appendix 1 to the report;
- (2) approve the amendments to the 2018-19 work plan as detailed in section 6 of Appendix 1 to the report;
- (3) request a report back on the issue of publishing gifts and hospitality received by senior officers;
- (4) request a report on the change in the arrangements for the provision of Governor Services by Medway Commercial Group; invite the Council appointed Director on MCG to attend the meeting of the Committee when this item is discussed and ask that this issue be raised with the Children and Young People Overview and Scrutiny Committee;
- (5) request that full audit review reports be circulated to the Chairman of the Committee, the Opposition Spokesperson and the relevant Portfolio Holder.

### **375 Annual Review of the Risk Management Strategy**

#### **Discussion:**

Members considered a report which presented the annual review of the Council's Risk Management Strategy.

The Head of Finance Strategy detailed the changes to the strategy as the tracked changes referred to were not visible in the published report.

In response to a question, the Head of Finance Strategy advised that the Council's approach to risk management was broadly in line with best practice.

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The risk register was now clearer in specifying inherent and residual risks and planned actions to bring them down to target levels.

Some Members queried why there had been no work on risks relating to Brexit and queried whether the decision to monitor relevant risks was influenced in any way and also asked where the risk management framework was agreed. The Head of Finance Strategy assured Members no pressure was exerted on officers to include or exclude risks. The Corporate Risk Register was considered by Overview and Scrutiny before approval by Cabinet. It included risks which could prevent the delivery of the Council's strategic objectives. Although Brexit was not a specific risk external advice where appropriate was taken on risks which Brexit could impact on.

A Member suggested that the risk register of organisations the Council contracted with should also be part of the information used by the Council when linking risk management to the "Golden Thread".

### **Decision:**

The Committee agreed to note the Risk Management Strategy as setting out the Council's approach to risk management.

## **376 Treasury Management Strategy Mid-Year Review Report 2018/19**

### **Discussion:**

Members considered a report regarding the mid-year review of the Treasury Management Strategy 2018/19.

The Head of Financial Strategy reported that, since the report had been published, the Council had taken out a 10 year loan totalling £5m with the Public Works Loan Board and also a £10m loan over 2.5 years with Barking and Dagenham London Borough Council. This was a start of a process to smooth out the maturity profile of its long term debts.

Members were also advised that the Cabinet, at its meeting held on 25 September 2018, had congratulated treasury management staff on their performance including, in particular, their success in achieving a significantly higher weighted average rate of return on the Council's investment portfolio in comparison to other local authorities and had asked that these comments be referred to the Audit Committee.

A Member queried whether the Council would now not be lending money to other Councils. The Head of Finance Strategy advised that the Treasury Management Strategy still provided for this but the priority was to achieve the highest returns possible and, at present, that was not with local authorities.

The Chief Legal Officer commented that the Council had recently invested in a £6.4m distribution network which would yield approximately £200,000 pa income for the Council. A Member asked for clarity with regard to commercial

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investments whether there were any areas the Council would not invest in order to prevent a conflict with the organisation's priorities or policies. The Chief Legal Officer advised that there were criteria for investments and a commercial strategy had recently been drafted with the initial aim of investments which would yield around 6% pa. This included the possibility of residential investments but this needed further work. He was happy to look at developing a policy on avoiding conflicts of interest regarding commercial investments.

A Member expressed concern about councils speculating on the housing market given the financial crash 10 years ago which followed speculation on housing and which led to several councils suffering a financial loss. The housing market produced big returns but that was because the risks were higher. The recent warning from the Governor of the Bank of England that withdrawal from the European Union could lead to a 30% fall in house prices should be seen as a real concern and the Council should be cautious about future speculation in the housing market. Medway Development Company (MDC) also exposed the Council to this risk on another front. In response the Chief Legal Officer advised that the MDC business case had been developed with the help of external advisors and factored in what would happen if the market dropped. For each scheme the financial viability of the project was tested at 4 different stages. In addition investments were typically over a 5-10 year period.

Other Members commented that, compared to the 2008 financial crash, the Council was investing in physical assets that could be understood. Also if the Council's cash remained in bank accounts then any devaluation in the currency would also pose a risk. Decisions about investments were based on evidence which gave some assurance to Members.

### **Decision:**

The Committee agreed to note the report.

### **377 Whistleblowing, Anti Bribery and Anti-Money Laundering Policies: Report on instances September 2017 - September 2018**

#### **Discussion:**

Members considered a report which set out the nature of concerns raised, between September 2017 and September 2018, under the Council's Whistleblowing, Anti-Bribery and Anti-Money Laundering Policies.

In response to a query, the Monitoring Officer advised that the Anti-Bribery Policy would also apply to Members and it was agreed this could be covered in the Member induction programme following the next elections.

With regard to the first whistleblowing concern reported in paragraph 3.1, officers advised that the investigation had not revealed any criminal offences.

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A Member suggested that future reports should include concerns raised under the whistleblowing, anti-bribery and anti-money laundering policies applicable to Medway Norse, Medway Commercial Group and Medway Development Company. The Monitoring Officer undertook to pursue that suggestion.

### **Decision:**

The Committee agreed to note the report.

**Chairman**

**Date:**

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