

**Medway Council**  
**Meeting of Audit Committee**  
**Tuesday, 8 January 2019**  
**7.00pm to 9.28pm**

**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  
Ade Oyerinde, Engagement Manager, Grant Thornton  
David Watkins, Head of Education  
Jonathan Lloyd, Principal Accountant  
Michael Turner, Democratic Services Officer  
Morounfolu Olatuja, Group Solicitor and Company Secretary,  
Medway Norse  
Vikram Sahdev, Director, Medway Commercial Services

**661 Apologies for absence**

There were none.

**662 Record of meeting**

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

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

There were none.

**664 Disclosable Pecuniary Interests and Other Significant Interests**

Disclosable pecuniary interests

There were none.

Other significant interests (OSIs)

There were none.

## Audit Committee, 8 January 2019

### Other interests

Councillor Gulvin disclosed an interest in agenda item no. 5 (Governor Services) as a school governor.

Councillor Maple disclosed an interest in agenda item no. 8 (Audit and Counter Fraud Update 1 September to 30 November 2018) as governor of a school mentioned in the report, i.e. Oaklands School.

## **665 Governor Services**

### **Discussion:**

Members considered a report which explained the process which led to the provision of governor services being moved from Medway Commercial Group (MCG) to another provider (the Education People) and the current arrangements in place to ensure the Council met its statutory duties for maintained schools.

The Head of Education advised that MCG had communicated the change in the arrangements for the provision of governor services to all schools. In addition, he had met with the Head teachers of secondary and primary schools to explain the change and how to access the new service.

A Member asked when the Head of Education had been informed that the staff delivering governor services had resigned, how much notice the Council had received of MCG's decision to provide the service through the Education People and whether any concerns had been raised prior to this at the monthly monitoring meetings between the Council and MCG. It was also queried whether the additional costs incurred were being met by MCG and whether MCG were recruiting for new staff to provide governor services. The Head of Education advised that he became aware of the staffing issues around June 2018. After the two members of staff resigned there was a need to put in place a service and the additional costs were being met by the Council, with MCG now having no role in delivering governor services and were not recruiting new staff.

A Member queried whether the service handed back had improved and the Head of Education confirmed he had no concerns about the service which had been handed back.

A Member asked what the rationale had been to transfer governor services to MCG and whether any checks had been made into the capacity of MCG to deliver what was a number of disparate services. The point was made that the specialist service provided by a very small number of staff, who subsequently left MCG, meant the latter would not have the same flexibility to respond as the Council would. This was a risk for both existing services and potential future transfers. In response, the Chief Legal Officer advised that the decision to transfer governor services had been taken by Cabinet in June 2017 where a

## Audit Committee, 8 January 2019

business case had been considered. This information would be circulated to Members of the Committee.

A Member made the point that scrutiny of the various alternative models of service delivery agreed by the Council had still not been fully embedded. The Chief Legal Officer commented that Cabinet Members who served as directors on Medway Norse and Council owned companies were now advised they could remain in the meeting when reports on the latter were considered. In terms of improvements in how overview and scrutiny committees scrutinised these bodies he was happy to consider any proposed improvements. A Member made the point that the only way the Council could continue to deliver high quality services, due to the reductions in finance, was to look at alternative models of delivering services.

A Member queried the position of the Chairman of MCG given he had indicated he would not stand for re-election to the Council in May. The Chief Legal Officer advised that the Member was no longer Chairman of MCG and would stand down as a Director at the end of March. It would then be for the Council to appoint a new Director.

A Member commented that the change in the arrangements should have been communicated to Members and it was unacceptable to learn of the change from schools. The Chief Legal Officer apologised for any embarrassment caused and explained that decisions on what changes should be communicated to Members were made on a case by case basis. However, lessons from this episode would be learned for the future.

A Member commented that this issue raised a wider concern about Council services transferred to Medway Norse and MCG which were then handed back to the Council, which appeared to be a growing trend.

With regard to the review into how the service should be provided after this 12 month contract had ended, a Member queried why MCG would need to be involved if the decision was to renew the contract with the Education People.

The Head of Education advised that MCG had handed back the service to the Council and the contract with the Education People, which had been brokered by MCG, was being managed by the Council.

MCG advised that lessons had been learned and business continuity plans were in place for critical services. Going forward, in the case of a critical service provided by a small number of staff, MCG would first speak to the Council on the best way forward if something similar was to happen again. Where additional services were proposed to be transferred then due diligence would be carried out and a business continuity plan drawn up.

It was suggested that the Business Support O&S Committee be asked to take stock of all services transferred back to the Council by MCG and Medway Norse and review the subsequent decisions taken by the Council.

## Audit Committee, 8 January 2019

### Decision:

The Committee agreed to:

- a) note the update provided, and;
- b) recommend to the Business Support Overview & Scrutiny Committee that they request a list of all Council services transferred to MCG and Medway Norse which had then been handed back to the Council, together with details of what action the Council had subsequently taken.

### 666 Annual Audit Letter 2017/18

#### Discussion:

Members considered a report regarding the work carried out by BDO, the Council's external auditors, in respect of the 2017/18 financial year.

The Committee also considered an update provided by the BDO Engagement Lead which summarised the findings of BDO into a complaint in relation to the LOBO loan borrowing undertaken by the Council, as referred to in paragraph 2.3.3 of the report. BDO reported they had concluded that the decision taken by the Council to obtain this form of borrowing was not unreasonable based on the relevant information available at that time and had therefore decided not to take any formal action relating to the objection. They had discussed their findings with the Objector, who had agreed not to pursue this objection any further.

#### Decision:

The Committee agreed to note the content of the Annual Audit Letter for 2017/18 and also the update on the findings of BDO into a complaint relating to LOBO loan borrowing.

### 667 Treasury Management Strategy 2019/20

#### Discussion:

Members considered a report which presented the Council's Treasury Management Strategy for the 2019/20 financial year. The Strategy incorporated within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.

In response to a query, officers advised that the external borrowing figures did not include the £24.7m that Cabinet had recommended be added into the capital programme in respect of the Independent Autism Spectrum Disorder Special School.

Reference was made to the addition in the Strategy (para. 5.7 refers) that the Council would consider approving loans to social enterprises and similar organisations where the loan would be used to advance Council priorities. A

## **Audit Committee, 8 January 2019**

Member queried whether any such loans had been agreed and were advised that a loan had been approved some years ago and repaid. A Member asked for further information outside the meeting about this case and how the process worked generally.

A Member queried why the lowest rating for investments in countries had been set at AA- when the Council did not invest outside of the UK. Officers advised this was based on advice from the Council's treasury advisors and any proposals to invest in a country outside the UK would be taken after advice.

In response to a query regarding the possible further use of equity or money market products, officers advised that only a small amount had been invested in a money market fund, unlike many other councils where this was more common.

In terms of the Council's risk appetite and whether this might change, officers commented that the approach had not changed and there were no current plans to invest in higher risk areas.

A Member referred to the fact that external borrowing had replaced available cash balances to manage cash flow and asked if officers had any concerns about this. Members were advised that due to a reduction in reserves, additional external borrowing had been necessary. So far, most of the new borrowing had been for short term duration due to the relative attractiveness of short term rates. Going forward, there would be more longer term borrowing which would bring more certainty but also result in some increase in interest cost.

A Member noted that the authorised limit for external debt had increased and queried whether this was sustainable given the shrinking size of the organisation. Officers advised that borrowing was only allowed for approved capital projects and the increase in the capital programme led to an increase in the authorised limit.

A Member queried why LOBO (borrowing under lender's option/borrower's option) were included in the Strategy when such products were not being purchased. Officers advised that this was to provide some flexibility but any proposal to take out a LOBO loan would come to the Committee.

### **Decision:**

The Committee agreed to note the report and forward its comments on the Strategy to Cabinet.

**668 Audit & Counter Fraud Update 1 September to 30 November 2018**

**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 September to 30 November 2018.

With regard to the recommendations still outstanding more than six months after the scheduled implementation date, Members were advised that since the report had been published, the regeneration and off payroll engagements recommendations had been implemented.

Reference was made to the seven outstanding recommendations relating to heritage buildings. Officers advised this was in part due to delays in receiving a response from English Heritage. It was suggested that if the recommendations were not actioned after 4 months then the Portfolio Holder should be informed so the matter could be escalated and, in addition, that the Chairman of the Committee should write to English Heritage and the Director Regeneration, Culture, Environment & Transformation & Deputy Chief Executive to highlight that Members considered it unacceptable that some audit recommendations had not been responded to after 18 months.

A Member referred to the thefts highlighted in the review of the Splashes Leisure Centre and commented that these problems tended to be more prevalent in satellite offices. It was suggested that the 2019/20 Audit Plan include a review to look at best practice in satellite offices. The Head of Audit & Counter Fraud Shared Service commented that this would be looked at when preparing the 2019/20 Plan but made the point that the scale of the thefts was quite low and the risks may not be high enough to justify a review. However, one of the Council's largest satellite buildings did feature in the draft plan.

A Member suggested that the review of Luton Infant and Nursery school could be removed given the proposal to merge Luton Infant and Luton Junior Schools.

A discussion took place about Blue Badge fraud and a recent report which showed many councils had not convicted anyone for fraud. The Head of Audit & Counter Fraud Shared Service advised that the Council had not pursued anyone for blue badge fraud and there was not a dedicated blue badge fraud team. There was a difference between misuse and fraud and any decisions to prosecute would only be made in the case of fraud and where it was in the public interest. Where misuse was the issue then the emphasis was on education before enforcement. The fraud team worked with the parking enforcement team to check badges where they could. A Member queried whether there was scope for the new litter enforcement contract to also include blue badge enforcement. Officers advised that these were two quite different services but the idea would be explored.

## **Audit Committee, 8 January 2019**

A Member referred to the investigation work the audit team carried out for HR and asked if this had increased in recent years. The Head of Audit & Counter Fraud Shared Service commented there had not been a dramatic increase and the balance between this and audit and fraud work would fluctuate across the year. There was a benefit to the Council in audit carrying out the investigating officer role.

A Member referred to the Medway Commercial Group – Governance & Accounting review and queried why this had not highlighted the difficulties in CCTV provision that had recently been discussed at an Overview & Scrutiny (O&S) Committee. Officers advised that these issues had come to light after the review had concluded and were not within the scope of the review.

In response to a query about what sanctions existed where recommendations were not implemented in a timely manner, the Head of Audit & Counter Fraud Shared Service advised that an implementation date was agreed with the service and CMT received quarterly reports on outstanding recommendations given the potential impact this could have on the Annual Governance Statement. After noting the request that these quarterly reports be sent to Portfolio Holders it was suggested that they should also be circulated to Opposition Spokespersons of the O&S Committees.

### **Decision:**

The Committee agreed:

- a) to note the outputs and performance of the Audit & Counter Fraud Plan for Medway for the period 1 September to 30 November 2018, as detailed at Appendix 1 to the report;
- b) to approve the removal of the Directs Payment review from the 2018-19 work plan, as detailed in section 6 of Appendix 1 to the report;
- c) that the Chairman of the Committee write to English Heritage about the outstanding heritage recommendations, and;
- d) that the quarterly reports on outstanding audit review recommendations be also circulated to Portfolio Holders and the Opposition Spokespersons of the Overview & Scrutiny Committees.

## **669 Audit & Counter Fraud Strategy: Review of Progress**

### **Discussion:**

Members considered a report which provided an update on progress against the Audit & Counter Fraud Strategy 2016-2020 made by the team during 2018-2019 to date.



**Decision:**

The Committee agreed to note the progress made by the Audit & Counter Fraud Team towards delivering its strategic objectives during the 2018-19 year to date.

**670 Review of Audit & Counter Fraud Quality Assurance and Improvement Programme**

**Discussion:**

Members considered a report which presented the results of the review of the Audit & Counter Fraud Quality Assurance & Improvement Programme.

**Decision:**

The Committee approved the Quality Assurance and Improvement Programme, presented at Appendix 1 to the report, for use in 2019/20.

**671 External Auditor's Progress Report**

**Discussion:**

Members considered the first report from the Council's new External Auditors from 2018/19, Grant Thornton, which provided an update on progress on the work towards the Council's audit along with updates on topics relevant to the sector.

A Member asked for the perspective of Grant Thornton on the relationship between councils and arm's length organisations delivering services on their behalf. Grant Thornton commented that they would be able to share some good practice from their work with other councils. In response to a query about helping to train new Members after the elections, Grant Thornton undertook to look at that suggestion.

With regard to meetings between Grant Thornton and finance officers to discuss emerging developments, Grant Thornton advised their purpose was to identify developments which could impact on the disclosure of accounts, so where there were any issues which needed addressing this could be done early in the audit process.

A Member referred to CIPFA's plans to provide an authoritative measure of local authority financial resilience via a new index, based on publically available information, which would assess the relative financial health of each English council, and asked how the councils which formed part of this index were selected. Grant Thornton advised that the Council would be able to select which councils to compare with. In response to a concern that the Council could be selective in which authorities it chose, Grant Thornton advised that the key was to challenge the information and ensure the outcomes was what had been required.



## **Audit Committee, 8 January 2019**

In response to a question, Grant Thornton confirmed that they did not provide any advisory services to the Council and therefore there were no issues around their independence to report.

Grant Thornton undertook to provide more detail regarding their new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

### **Decision:**

The Committee agreed to note the report from the Council's External Auditor, Grant Thornton, set out at Appendix 1 to the report.

**Chairman**

**Date:**

**Michael Turner, Democratic Services Officer**

Telephone: 01634 332817

Email: [democratic.services@medway.gov.uk](mailto:democratic.services@medway.gov.uk)