

Medway Council
Meeting of Audit Committee
Thursday, 21 March 2019
7.02pm to 8.10pm

Record of the meeting

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

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

In Attendance: Katey Durkin, Head of Finance Strategy
David Eagles, Engagement Lead, BDO
Perry Holmes, Chief Legal Officer/Monitoring Officer
James Larkin, Head of Audit and Counter Fraud
Ade Oyerinde, Engagement Manager, Grant Thornton
Michael Turner, Democratic Services Officer
Phil Watts, Chief Finance Officer
Darren Wells, Engagement Lead, Grant Thornton

933 Apologies for absence

There were none.

934 Record of meeting

Subject to the reference to Councillor Maple declaring an interest as a governor of Oaklands School in Minute no. 664 being amended to reflect that it had been Councillor Gulvin who had declared this interest, the record of the meeting of the Committee held on 8 January 2019 was agreed and signed by the Chairman as correct.

935 Urgent matters by reason of special circumstances

There were none.

936 Disclosable Pecuniary Interests and Other Significant Interests

Disclosable pecuniary interests

There were none.

Other significant interests (OSIs)

There were none.

Other interests

There were none.

937 Annual External Audit Plan

Discussion:

Members considered a report regarding Grant Thornton's plan for the audit of the accounts for the financial year 2018/19. The purpose of the Audit Plan was to provide an overview of the planned scope and timings of the statutory audit of Medway Council for those charged with governance.

The following issues were discussed:

Materiality levels – in response to a question whether the approach of Grant Thornton would differ to that of BDO, Grant Thornton advised that they had determined planning materiality to be 1.9% of the Council's gross expenditure, with the industry norm being 1-2%. This threshold, together with the other areas of the audit, was fairly consistent with the approach taken by BDO.

Brexit – reference was made to Grant Thornton's plans, in the light of the UK leaving the European Union, to review the Council's workforce plans, analyse the supply chains and model potential impacts on finances, including investment and borrowing as well as any potential impact on the valuation of Council assets. A Member asked if Grant Thornton had seen any evidence that the Council had considered these issues, making the point that this was a key and imminent risk the Council should have already addressed. Grant Thornton replied that this review had been included due to the financial reporting risks and the potential disruption to Medway and Kent. Grant Thornton were aware of the work to prepare for Brexit carried out by the Kent Resilience Forum.

The Chief Finance Officer added that managers had been preparing at a service level. Although some councils in Kent had produced impact assessments, the Council had decided not to draw up plans for the numerous possible scenarios it was facing, given the high levels of uncertainty about what would happen. Grant Thornton stated that they were not advocating which approach the Council should take but wanted to understand what the Council's plans were for Brexit. A Member commented that the Council's approach was to manage its finances prudently and the controls and systems in place were robust. Finances were very tight and spending money preparing for as yet unknown difficulties was not seen as sensible. The Chief Finance Officer commented that he was working to stabilise the Council's borrowings through a series of longer term loans to prepare for any negative impact of Brexit. The Council's investments in property and property funds were relatively modest and he did not consider the risk to be significant.

Management Override of Controls – responding to a query, Grant Thornton advised that, due to the risk of manipulation by journal transfers, they would be looking at the Council's control environment and testing samples.

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Significant Value for Money (VFM) risks – a Member asked if Grant Thornton had any concerns relating to Medway that they did not have for other councils. Grant Thornton advised that examining VFM arrangements was part of the work External Auditors had to do to look at the risks of a council reaching the wrong VFM conclusions. Looking at financial sustainability was part of that work as Grant Thornton did not yet know enough about the Council's plans on this matter, although they did not have any concerns at present.

Business Rates Retention Pilot – in response to a question, Members were advised that although the bid in 2018/19 had been successful the 2019/20 bid had not been approved. However, the growth in business rates that would have resulted had not been built into the Medium Term Financial Strategy.

Decision:

The Committee agreed to note the proposed annual Audit Plan for 2018/19.

938 External Audit Grant Claim Report

Discussion:

Members considered a report regarding the work carried out by BDO, the Council's external auditor for 2017/18, in respect of the certification of grant claims for the financial year ended 31 March 2018.

Noting that this would David Eagles', BDO Lead Engagement, last meeting of the Audit Committee, Members and officers thanked David for his help over the last few years and his consistent ability to clearly explain complicated issues.

Decision:

The Committee agreed to note the external auditor's grant claims and returns certification report for 2017/18, as set out at Appendix 1 to the report.

939 Audit & Counter Fraud Update 1 December 2018 to 31 January 2019

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 December 2018 to 31 January 2019.

The Head of the Audit and Counter Fraud Service updated Members as follows:

- in section 5 of Appendix 1 (Quality Assurance & Improvement Programme) the following performance targets were updated as follows:

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- A&CF10 - proportion of productive time spent on assurance & consultancy work was now 53%;
 - A&CF11 - proportion of productive time spent on counter fraud work was now 47%, and;
 - A&CF12 - proportion of agreed assurance assignments delivered was 85% and assignments underway was 9%.
- with regard to the outstanding recommendations regarding heritage buildings, progress had been made since the report had been finalised and further discussions were due imminently with the service.

A Member asked if the proportion of time spent in Medway on audit work compared to counter fraud was similar to the proportion at Gravesham Borough Council. The Head of the Audit and Counter Fraud Service replied that the figures in the report represented the 31 December 2018 – 31 January 2019 period and would fluctuate for each reporting period. However, the proportions were broadly similar at Gravesham.

A Member referred to the purchase cards audit review which had recently been circulated to Members but did not form part of the agenda papers. He expressed concern at the report's recommendations and asked to discuss the report in detail. The Chairman stated that it would not be appropriate to discuss this report at this meeting but there would be an opportunity at the next meeting when a summary of the report would be included in the next update report.

In response to a query about when the terms of reference of the GDPR audit review would be finalised, Members were advised this review was now underway.

Reference was made to the revised implementation date of 31 March 2019 for the income collection review and the Chief Finance Officer confirmed both recommendations would be implemented by that date.

Decision:

The Committee agreed to;

- a) note the outputs and performance of the Audit and Counter Fraud Plan for Medway for the period 1 December 2018 to 31 January 2019 as detailed at Appendix 1, and;
- b) approve the following amendments to the 2018-19 work plan for the reasons set out in section 6 of Appendix 1 to the report:
 - i) remove the audit of Luton Infant School from the Plan, and.
 - ii) defer the scheduled audit of planning applications to 2019-20.

940 Audit & Counter Fraud Plan 2019-20

Discussion:

Members considered a report regarding the Audit and Counter Fraud Plan for Medway for 2019-20. This was a risk-based plan to determine the priorities of the internal audit activity, consistent with the Council's goals.

A Member referred to the completed audit review of Medway Commercial Group (MCG) (Governance and Accounting) and asked, in the light of concerns some Members had subsequently expressed about MCG, whether there were plans to revisit this review, particularly relating to how the Council managed its contracts with MCG. The Head of the Audit and Counter Fraud Shared Service commented that the review had focused on the interaction between the Council and MCG but, if necessary, could be re-visited as part of the responsive audit work. It was not the role of Internal Audit to review the internal workings of a separate company, who would appoint their own auditor, and responsibility for contract management was a matter for the relevant service within the Council.

Decision:

The Committee approved the Audit and Counter Fraud Plan for Medway for 2019-20, as presented at Appendix 1 to the report.

941 Audit & Counter Fraud Charter

Discussion:

Members considered a report regarding the Audit and Counter Fraud Charter, which set out the purpose, authority and responsibilities of the Audit and Counter Fraud Team to deliver audit work. It also set out the Team's position in the organisations including functional and operational reporting lines.

Members were advised that Gravesham Borough Council's Finance and Audit Committee had agreed that the last sentence in Paragraph II of the Charter, which stated that the service would have direct access to the Chairs of the Audit Committees, should not be deleted.

In response to a query from a Member about the removal of the reference to delivering services in compliance with the Code of Ethics that was mentioned in Paragraph III, the Committee was advised that this Code was now part of the overall framework auditors had to comply with and therefore compliance with the Code was required by default.

Decision:

The Committee approved the Audit and Counter Fraud Charter, as presented at Appendix 1 to the report, subject to the retention of the sentence in Paragraph II stating that the service would also have direct access to the Chairs of the Audit Committees.

942 Senior Officers - Recording and Publishing Gifts and Hospitality

Discussion:

Members considered a report which set out the current requirements for officers to record all gifts and hospitality they had been offered and which also responded to a suggestion made by the Audit Committee that this information should be made publicly available in respect of senior officers.

In considering the options there was a difference of opinion between Members as to the way forward. Some Members concluded that no changes to the current system were justified as the information was already recorded by the Council; comparative councils did not publish records of senior officers' gifts and hospitality and, also, no concerns about this issue had been reported to the Monitoring Officer. One Member believed that as the information was already recorded, this information should be published in the interests of transparency. To do so would not be onerous and the Council would be leading by example.

A proposal that no changes be made to the existing rules was then agreed.

Decision:

The Committee agreed that no changes should be made to the existing rules regarding the recording of officer gifts and hospitality.

In accordance with Council Rule 12.6, Councillor Osborne asked that his vote against the decision be recorded.

Chairman

Date:

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