

Medway Council
Meeting of Audit Committee
Thursday, 27 June 2019
7.02pm to 8.23pm

Record of the meeting

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

Present: Councillors: Browne, Gulvin, Hackwell, Osborne and Tranter
(Chairman)

In Attendance: Darren Wells, Engagement Lead, Grant Thornton
James Larkin, Head of Audit and Counter Fraud
Phil Watts, Chief Finance Officer
Perry Holmes, Chief Legal Officer/Monitoring Officer
Jonathan Lloyd, Principal Accountant
Michael Turner, Democratic Services Officer

104 Apologies for absence

There were none.

105 Record of meeting

The records of the meeting of the Committee held on 21 March 2019 and the Joint Meeting of Committees held on 22 May 2019 were agreed and signed by the Chairman as correct.

106 Urgent matters by reason of special circumstances

There were none.

107 Disclosable Pecuniary Interests and Other Significant Interests

Disclosable pecuniary interests

There were none.

Other significant interests (OSIs)

Councillor Gulvin disclosed an OSI in relation to the reference to Oaklands Primary School in agenda item 8 (Audit and Counter Fraud Annual Report 2018/19) as a Governor of the school.

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Other interests

Councillor Gulvin disclosed that he was the Chairman of the Community Safety Partnership and also of the Medway Development Company. He also added that he was one of the members who had completed the internal audit satisfaction survey.

108 Review of Audit Committee Terms of Reference

Discussion:

Members considered a report on a review of the Terms of Reference of the Audit Committee.

Decision:

The Committee agreed that, following a review of the Terms of Reference, no amendments were required as they remain relevant and reflect best practice and that the Audit Committee continue to operate under the existing Terms of Reference.

109 External Audit Fee 2019/20

Discussion:

Members considered a report regarding the proposed fee for the external audit for 2019/20.

Grant Thornton had been appointed by Public Sector Audit Appointments Limited (PSAA) as auditors of Medway Council for 2019/20. The fees for the core audit for 2019/20 had been set by PSAA and remained at the same level as in 2018/19, at £109,687.

In response to a question, Grant Thornton confirmed that they did not provide any advisory services to the Council and, if this was to change, they would report that to the Committee and any resulting conflicts of interest.

Decision:

The Committee agreed to note the fees for the core audit for 2019/20.

110 Treasury Management Outturn Annual Report

Discussion:

Members considered a report which gave an overview of treasury management activity during 2018/19.

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Referring to paragraph 11.10 regarding investment performance, Members discussed the appropriate balance between risk and levels of return. Officers advised that there were set limits for investment which must meet minimum credit criteria. The Committee was advised that while the Council was receiving higher rates of return than expected the relatively small amounts invested did not mean that the Council's risk appetite had increased. The point was also made that the graph at paragraph 11.10 only represented a snapshot of performance as at 31 March 2019.

A Member noted that Kent County Council's (KCC) pension fund held an investment in the Woodford Equity Income Fund and asked what the impact might be on the Council in the light of the difficulties the latter was experiencing and also whether the Council held any investments in this Fund. The Committee was advised that the Council held no investments in the Woodford Equity Income Fund in line with its policy not to invest in equities. The Kent Pension Fund's investments with the Woodford Fund represented less than 4% of the total pension fund. The Chief Finance Officer stated that the Woodford Fund had been suspended so no losses had been incurred as yet. The matter was discussed with KCC colleagues and they were not expecting there to be any significant effect on the pension fund balance sheet.

A Member asked how the Council's levels of short term borrowing compared to similar councils and was advised that current levels had come down to £20m and officers were comfortable with that level. There was no comparative data available.

Decision:

The Committee agreed to approve this treasury management outturn annual report and referred it to Cabinet.

111 Audit and Counter Fraud Annual Report 2018/19

Discussion:

Members considered a report regarding the Audit and Counter Fraud work completed during 2018-19 and also the opinion of the Head of Audit and Counter Fraud Shared Service, as Chief Audit Executive, on the Council's internal control environment.

In response to a query about how the implementation of high priority recommendations was managed, the Head of Audit and Counter Fraud Shared Service advised that implementation was a matter for the relevant service manager. Internal Audit followed up on progress and asked for evidence to demonstrate that high priority recommendations had been implemented. The Corporate Management Team also monitored outstanding recommendations on a quarterly basis and anything that had not been actioned after 6 months was reported to the Committee.

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A Member queried whether Gravesham Borough Council had expressed any wish to change the Internal Audit shared service arrangement following the recent elections and a change in control at the council. The Chief Finance Officer commented that his recent discussions with Gravesham had not indicated any such wish and in fact Gravesham had pointed to a willingness to enter into further shared services with the Council.

Noting the increase in the proportion of time spent on fraud work in 2018/19 a Member asked if this gave rise to any grounds for concern and also asked for an assurance that the use of internal audit to carry out internal HR investigations was an effective use of their time. The Head of Audit and Counter Fraud Shared Service advised that only one of the revisions to the Audit Plan had been due to a lack of resources in the team. The team had assisted HR with a number of disciplinary investigations but only when they had the capacity to do so and the use of trained investigators working on more complex cases had helped the authority.

Referring to the findings of the audit review of Luton Juniors, a Member asked if this information had been shared with those responsible for the proposed amalgamation of Luton Infant and Junior Schools. The Head of Audit and Counter Fraud Shared Service advised that the audit had started before the proposal to merge had been announced.

A Member requested an update regarding on the implementation of the recommendations following the audit review of corporate credit cards and it was agreed a briefing would be sent to all members of the Committee.

A Member referred to recent finding from a CIPFA survey which showed that 50% of local government senior accountants across the country had stated they had been placed under pressure to act in an unethical way. These findings were hopefully not replicated in Medway but gave rise to a question whether enough was being done to raise awareness of the whistleblowing policy. Details of this survey would be shared with Members.

Decision:

Members agreed to:

- a) note the work undertaken by the Audit and Counter Fraud Shared Service for Medway during 2018-19 in providing an effective service to the Council;
- b) note the opinion on the Council's internal control environment provided by the Head of Audit and Counter Fraud Shared Service, and;
- c) request a briefing note on the implementation of the recommendations following the audit review of corporate credit cards.

112 Internal Audit and Counter Fraud Service - Results of Satisfaction Survey

Discussion:

Members considered a report regarding the results of a survey aimed at identifying the level of satisfaction with the services provided by the Audit and Counter Fraud Team.

The response rate to the survey had been approximately 20% with service managers being the highest responding group and also the group whom internal audit interacted with the most. It was suggested that the format of the survey could be reviewed to encourage more responses and also whether it would be better to identify respondents so that they could be asked more in depth questions in order to gain a better understanding of any issues raised.

Decision:

Members agreed to note the results of the Audit and Counter Fraud satisfaction survey.

113 Annual Governance Statement

Discussion:

Members considered a report explaining the requirements for reporting and approving an Annual Governance Statement (the Statement) covering the financial year 2018/19.

A Member queried the use of £2m of additional business rates growth from a pilot scheme to fund an overspend in the Children and Adults Directorate and also why the pilot scheme funds had not been added to the budget. The Chief Finance Officer explained that the additional funds from the pilot had not been added to the revenue budget given their one off nature. At this point budget pressures in the Children and Adults Directorate had started to emerge but this approach meant services still retained responsibility for delivering savings targets while allowing some flexibility to respond to budget pressures. The next Medium Term Financial Strategy would seek to address these pressures in the Children and Adults Directorate.

A Member queried the origin of the three areas identified as where the Council would need to enhance its governance arrangements in 2019/20 and how these linked to the priorities in the Council Plan. The Chief Legal Officer advised these were 3 new risks which the Corporate Management team considered needed to be included in the Statement. Consideration would be given as to whether they should also be added to the Council Plan.

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A Member emphasised the importance of the Statement to the work of the Committee and invited discussions outside the meeting about whether the issues it contained were adequately reflected in the audit plan and the Committee's work programme.

Decision:

The Audit Committee agreed to approve the Annual Governance Statement.

Chairman

Date:

Michael Turner, Democratic Services Officer

Telephone: 01634 332817

Email: democratic.services@medway.gov.uk