

Medway Council
Meeting of Audit Committee
Monday, 29 July 2019
7.00pm to 7.45pm

Record of the meeting

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

- Present:** Councillors: Browne, Gulvin and Osborne
- Substitutes:** Councillors:
Barrett (Substitute for Tranter)
Tejan (Substitute for Hackwell)
- In Attendance:** Katey Durkin, Head of Finance Strategy
Perry Holmes, Chief Legal Officer/Monitoring Officer
Jonathan Lloyd, Finance Business Partner - Corporate Services
Andy McNally-Johnson, Finance Business Partner - Corporate Reporting
Michael Turner, Democratic Services Officer
Phil Watts, Chief Finance Officer
Darren Wells, Engagement Lead, Grant Thornton

192 Election of Chairman

In the absence of the Chairman, the Committee agreed to elect Councillor Gulvin as Chairman for this meeting.

193 Apologies for absence

Apologies for absence were received from Councillors Hackwell and Tranter.

194 Record of meeting

The record of the meeting of the Committee held on 27 June 2019 was agreed and signed by the Chairman as correct.

195 Urgent matters by reason of special circumstances

Under section 100B of the Local Government Act 1972, the Chairman agreed that the report at agenda item 5 (Audit Findings Report 2018/19 and Statement of Accounts 2018/19) should be considered at this meeting as a matter of urgency because the next meeting of this Committee will not take place until 26 September 2019 and the issues raised within the Council's External Auditor's Audit Completion report, must, in accordance with the Accounts and Audit

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Regulations 2015, be considered by this Committee prior to publication of the Statement of Accounts by 31 July 2019. The report was not available in time for despatch with the main agenda as the Auditors needed additional time to complete their work.

196 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 Director of Medway Development Company.

Councillor Tejan disclosed that he had a registered business at the Innovation Centre.

197 Audit Findings Report 2018/19 and Statement of Accounts 2018/19

Discussion:

Audit Regulations 2015 required that the Audit Committee consider these issues prior to approval of the Statement of Accounts.

Members also considered an addendum report which detailed amendments to the Statement of Accounts.

The following issues were discussed:

Digital Transformation Programme - noting the difference of opinion between the Council and Grant Thornton on whether the cost of the digital transformation Programme should be funded from revenue expenditure funded from Capital under Statute rather than recorded in the relevant service revenue line in the Comprehensive Income and Expenditure Statement, a Member asked Grant Thornton if this difference was significant. Grant Thornton replied that they were not questioning that the expenditure had occurred but rather how it should be accounted for and did not see this as a material issue.

Prior year recommendations – a Member referred to a number of recommendations from the previous year's action plan which had not yet been completed and asked if Grant Thornton had any concerns about that. Grant Thornton commented that this was not unusual but would depend on the nature of the recommendation. Overall Grant Thornton considered a good level of progress had been made by the Council.

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Review of financial instruments note, Capital expenditure and financing, accounting disclosures, REFCUS, LOBOS and NDR appeals provision – in response to a query about how these reviews were progressing, Grant Thornton advised that they were in the process of completing them and, to date, nothing had emerged which was likely to have an impact on the accounts.

Internal controls – a Member queried whether officers had been given too much authority in relation to large capital projects. Grant Thornton commented that they had not seen anything that indicated that was the case.

Journals – in response to a query about journals, Grant Thornton advised that these could be automatic or manual and were a mechanism to add information into the accounting system. Due to the very large number of journals a risk assessment approach had been adopted whereby a selection of journals which looked unusual were tested. No significant issues had been found from these tests. The Head of Financial Strategy added that a new system of electronic journal processing and approval would be tested soon and was due to be implemented in the later half of 2019 and would address the type of control failures identified by Grant Thornton.

Parking services overspend – in response to a query how this had arisen, the Chief Finance Officer advised that this was an under recovery of income rather than an overspend. Parking charges had been increased but the income targets set had not been achieved. Some Members argued a more realistic target should be set and the Chief Finance Officer replied that this would be considered as part of the Medium Term Financial Strategy (MTFS). In terms of why the targets had not been achieved, the Committee was advised that it had largely been due to behavioural changes, exemplified by fewer people parking in town at Christmas than expected.

Valuation of assets – in response to a query regarding whether a valuation could see assets losing value, Grant Thornton advised that there was a rolling programme of valuations and, depending on the market, values could increase or decrease.

Reserves – a member expressed concern that levels of reserves were well below the average for Kent councils and also queried why similar unitary authorities had not been benchmarked against. Grant Thornton commented that they did not consider the Council was in danger of running out of reserves and the assumptions about reserves in the MTFS were reasonable. It would be possible to benchmark against other councils and CIPFA was developing a financial resilience benchmarking tool. The Chief Finance Officer added that levels of reserves had increased in the last financial year. He recognised that the Council was at the lower end of the spectrum in terms of reserve levels and assured the committee that the next iteration of the MTFS would seek to strengthen the existing reserves strategy in order to address this.

Capital receipts – referring to the prospect of the Council receiving large capital receipts from development such as Rochester Riverside, a Member

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asked if the Council had a strategy for dealing with these. The Chief Finance Officer advised this would be set out in the Capital Strategy and key to this was how the Council could use capital receipts creatively to generate revenue savings.

Disposals – a Member questioned whether properties disposed of had been undervalued. The Chief Finance Officer responded that advice from the auditors was that where the Council had a rolling programme of valuations then it should evidence that checks had been carried out to show the validity of the valuations in the accounts.

Members thanked the finance team and External Audit for their work in producing the accounts, noting prudent management had led the Council to be in a much stronger position with the Statement of Accounts than in previous years.

Grant Thornton advised that the Management Letter of Representations would be sent to the Chairman following the meeting.

Decision:

The Committee agreed to:

- a) note the issues raised and judgements made by the Auditor as presented in Appendix 1, and agree the proposed response as set out at Appendix A 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 further amended by the addendum report (Supplementary Agenda no 2), and;
- c) place on record their thanks to the finance team and the External Auditors for their hard work in producing and auditing the accounts and to also recognise that the quality of the accounts has improved significantly from the position several years ago.

Chairman

Date:

Michael Turner, Democratic Services Officer

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