

Medway Council
Meeting of Audit Committee
Thursday, 26 September 2019
7.03pm to 8.21pm

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: Katey Durkin, Head of Finance Strategy
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

311 Apologies for absence

There were none.

312 Record of meeting

The record of the meeting of the Committee held on 29 July 2019 was agreed and signed by the Chairman as correct.

313 Urgent matters by reason of special circumstances

There were none.

314 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.

315 Annual Audit Letter 2018/19

Discussion:

Members considered a report regarding the Annual Audit Letter 2018/19 which reflected the work carried out by Grant Thornton, the Council's external auditors, in respect of the 2018/19 financial year. Grant Thornton advised that, since the Audit Letter had been issued, the audit of the Whole of Government Accounts had been completed.

The Chief Finance Officer reported that the audit fees had been set by Public Sector Audit Appointments (PSAA) Ltd, who oversaw audit fees. However, additional work needed at the end of the audit had led to an additional fee of £11,000. Grant Thornton added that more work had been needed, mainly around pension and PPE valuations. They were in discussions with PSAA about whether this should be reflected in the fee in future as this work was not a one off.

A Member asked if the reported loss by the Woodford Equity Income Fund would have any impact on the valuation of the Kent pension fund. The Chief Finance Officer advised that Kent County Council, who administered the pension fund, had said so far that they did not expect this to impact on the Council's contributions to the Fund but the outcome would not be known until the next 3 year actuarial valuation.

A Member asked whether Grant Thornton had taken into account this year's funding settlement from the Government when arriving at their Value For Money (VFM) conclusion. Grant Thornton responded that the VFM conclusion was in relation to the previous financial year. While they did look at the Medium Term Financial Strategy this was at a very high level.

Referring to the risk of a management override of internal control, a Member asked when the new system of electronic journal processing and approval, aimed at addressing the control failures identified, was due for implementation. The Head of Finance Strategy advised this system would be tested soon and implementation would take place as soon as possible afterwards.

The Chairman stated that he wished to see a report at the next meeting on the possibility of consolidating the accounts of Council owned subsidiaries so that the Committee had an overview of their accounts in the interests of greater transparency. The Committee could then decide what, if any, action should be taken.

Decision:

The Committee agreed to note the contents of the Annual Audit Letter.

316 Audit and Counter Fraud Update to end of August 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 April to 31 August 2019.

The Audit and Counter Fraud Shared Service Manager reported that, since the report had been finalised, 27% of the Plan had now been delivered with a further 49% underway. In addition, the recent Ofsted inspection of children's social care services which found the service to be inadequate overall represented a change in the risk environment since the Audit Plan had been approved. Internal audit would be carrying out assurance work in children's services and as a result other reviews would be delayed until next year to free up time. Full details would be reported to the next meeting.

A Member queried whether internal audit would apply the finding from Ofsted about weaknesses in the accuracy of management information in children's services to reviews in adult social care so that the same issue was not repeated. The Audit and Counter Fraud Shared Service Manager advised that he had met with the manager responsible for drawing up the action plan in response to the Ofsted report. Some of the urgency was around financial sustainability and the Internal Audit team would be working with Children's Services on audit reviews needed in that area. Internal Audit would take on board the findings of the Ofsted report when carrying out any reviews in Adult Social Care but he was not aware of any concerns at present which suggested there was a similar problem regarding management information in Adult Social Care.

A Member referred to the Special Educational Needs and Disabilities Transport review and a recent challenge to the Council about only providing transport to the nearest school and potential liabilities to the Council that could arise from this. The Chief Legal Officer advised this related to a complaint to the Local Government Ombudsman (LGO) and the LGO's report on this matter would be considered by Council in January. Each home to school transport application was decided on its own merits so it did not follow that the LGO criticisms of how the policy had been implemented would cause further problems but it would be kept under review.

Referring to the Adult social care (assessments and reviews of care packages) review a Member queried why only 18 cases had been sampled. The Audit and Counter Fraud Shared Service Manager advised that as no problems had been identified a decision had been made to not test any more samples. The service had now decided to implement the changes recommended across the service. In response to a suggestion this approach could be followed in children's social care, the Audit and Counter Fraud Shared Service Manager commented that there was a different approach in children's services as children's needs differed to those of adults but Internal Audit would be reviewing care packages in children's services. The Chief Legal Officer undertook to raise at the Children's Services Improvement Board whether any lessons could be learned from the Adult Social Care audit review.

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A Member asked if a review of business parking permits could be considered in the future.

The Chairman referred to the finding of a CIPFA ethics survey of members and other public sector accountants where over 50% of respondents said they had been placed under pressure to act in an unethical way. A report on ethics in the Council would be considered at the next meeting.

Decision:

The Committee agreed to:

- a) note the outputs and performance of the Audit and Counter Fraud Plan for Medway for the period 1 April to 31 August 2019 as detailed at Appendix 1 to the report, and;
- b) approve the following amendments to the 2019-20 workplan as detailed in section 7 of the report at Appendix 1:
 - remove review of grant payments to voluntary organisations from the Plan.
 - defer review of Adult social care - Assessments and reviews of care packages - Adults with Physical Disabilities to 2020-21.
 - merge review of the Building Repair & Maintenance Fund with the planned review of asset management.

317 Treasury Management Strategy Mid-year Review Report 2019/20

Discussion:

Members considered a report regarding the mid-year review of the Treasury Management Strategy 2019/20.

The following typographical errors were noted:

- Paragraph 4.3.2 – the reference to 2018/19 should read 2019/20.
- Paragraph 5.2 – the reference to 3 September 2018 should read 3 September 2019.
- Paragraph 6.7 – the reference to April 3022 should read April 2022.

A Member welcomed the significant reduction in short term borrowing over the last 12 months, which had reduced from £55m to £14m.

In response to a question about the possibility of rescheduling the Council's LOBO's (Lender Option Borrower Option) loans, officers advised that changes in Public Works Loan Board rules meant it was almost impossible to re-pay loans early without incurring a loss. As LOBO rates had fallen the Council would also have to pay a significant early repayment fee. Although some LOBO

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lender had offered other councils deals to reschedule these loans, this had not yet happened in Medway.

Referring to the fact that Medway's future investment performance would be lower in the future as the last of a number of older fixed rate loans with higher interest rates was repaid in August 2019, Members were advised, in response to a question, that this had not altered the Council's appetite for risk. The Council had invested £23m in property funds which demonstrated the Council was not completely risk averse, although the opportunity to invest further was limited. In addition, once the statutory override ended, likely to be within five years, changes in the market value of these investments would have to be reflected in the revenue accounts and if the value fell this would leave a shortfall in the Council's finances.

Decision:

The Committee agreed to note the report.

318 Risk Strategy Annual Review

Discussion:

Members considered a report regarding the annual review of the Risk Strategy.

In response to whether the new Risk Strategy meant the Council's approach to risk was now more in line with that of other councils, the Head of Finance Strategy confirmed that was the case. The Council's involvement in a regional risk benchmarking group confirmed the Council was in line with best practice in terms of both the Risk Strategy and the contents of the strategic risk register. The risk register may in the future also include opportunities and was now reported alongside council plan performance reports. Regarding a suggestion that the Committee should also consider the strategic risk register, officers advised that the Committee's remit was to ensure the risk framework was in place and the management of risk was a matter for Cabinet, with the Business Support O&S Committee scrutinising the register. A Member expressed the view that managers should be encouraged to identify potential external risks that could impact on the Council.

Decision:

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

**319 Whistleblowing, Anti Bribery and Anti-Money Laundering Policies –
Report on Instances September 2018 - September 2019**

Discussion:

Members considered a report which set out the nature of concerns raised, between September 2018 and September 2019, under the Council's Whistleblowing, Anti-Bribery and Anti-Money Laundering Policies.

In response to a question about employee awareness of these policies and how accessible they were, the Chief Legal Officer advised that the policies were easy to find on the intranet and the latter was well used by staff. However, he would look at what more could be done to raise awareness and whether a dedicated telephone number could be offered for staff to raise concerns.

In terms of third parties and contractors, the Chief Legal Officer undertook to check if the contracts specified there had to be a whistleblowing policy.

The Chief Legal Officer commented that money laundering was less likely to occur in a Council because of the nature of the transactions in local authorities. The area at most risk of bribery was in procurement but he assured Members that the Council had robust procurement processes in place with high levels of transparency. He confirmed any concerns raised under these policies would be looked at as there were no materiality thresholds.

The Chairman stated he wished for there to be a constructive discussion on ethics at the next meeting to see how ethics was managed in the Council and what could be done to learn from any problems.

Decision:

The Committee agreed to note the report.

Chairman

Date:

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