

Medway Council
Meeting of Audit Committee
Tuesday, 7 January 2020
7.00pm to 8.42pm

Record of the meeting

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

- Present:** Councillors: Browne, Gulvin, Osborne and Tranter (Chairman)
- Substitutes:** Councillors:
Etheridge (Substitute for Hackwell)
- In Attendance:** Ade Oyerinde, Engagement Manager, Grant Thornton
Perry Holmes, Chief Legal Officer/Monitoring Officer
Katey Durkin, Head of Finance Strategy
James Larkin, Head of Audit and Counter Fraud
Jonathan Lloyd, Finance Business Partner - Corporate Services
Michael Turner, Democratic Services Officer
Andy McNally-Johnson, Finance Business Partner - Corporate Reporting

520 Apologies for absence

An apology for absence was received from Councillor Hackwell.

521 Record of meeting

The record of the meeting of the Committee held on 26 September 2019 was agreed and signed by the Chairman as correct.

522 Urgent matters by reason of special circumstances

There were none.

523 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 agenda item 10 (Consolidating the Accounts of Council Owned Subsidiaries) as he was a Director of Medway

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Development Company. Councillor Gulvin stated he had been granted a dispensation to speak and vote on matters relating to the company.

Other interests

Councillor Gulvin disclosed that, in relation to agenda item 10 (Consolidating the Accounts of Council Owned Subsidiaries) he was a member of the Medway Norse Liaison Board.

524 External Audit Progress Report

Discussion:

The Committee considered a report regarding the work carried out by Grant Thornton, the Council's external auditors, towards their 2019/20 audit along with updates on topics relevant to the sector.

Regarding the independent review of local government auditing announced by the Government in July 2019, the views of Grant Thornton were sought as to whether the impetus for this was the number of councils who had recently experienced severe financial difficulties. Grant Thornton acknowledged that as an issue but felt the review was more about a recognition that the reporting environment had changed and to ensure the users of accounts received the information they needed. The point was made that there was a need for everyone involved in the audit process to raise their game.

In terms of what External Audit could do to help Audit Committee Members to ensure they had the necessary tools to carry out their role and hold the officers to account, Grant Thornton supported Members in various ways, including providing training, benchmarking data and sharing key information about the sector. In future, External Audit reports would have more of an emphasis on challenging management assumptions and helping Members to understand how to scrutinise the Council's financial statements.

In terms of whether the Financial Reporting Council (FRC) would be recommending to councils how to communicate heightened risks such as Brexit, Grant Thornton commented that they would share any guidance with Members when received. The FRC was increasing its focus on the work of External Audit. Over the last year Grant Thornton were posing more of a challenge to officers and Members on some of the material balances in the accounts.

Grant Thornton were asked why information from the Institute for Fiscal Studies had been used as a source of information in their progress report. In response it was clarified that this was a standard report shared with all Grant Thornton's clients but was supplemented by local Audit Committees being provided with benchmarking information on matters of interest to them.

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The Committee welcomed the report and comments were made about the need for reports to the Committee to be clearer in order to get maximum value from Members.

Reference was made to Grant Thornton's Sustainable Growth Index report which sought to define and measure the components that create successful places. Noting that Medway did not fare particularly well in this Index, it was suggested this was an issue that could be picked up elsewhere in the Council.

Decision:

The Committee agreed to note the content of the External Audit Progress Report.

525 Treasury Management Strategy 2020/21

Discussion:

The Committee considered a report regarding the Council's Treasury Management Strategy for the 2020/21 financial year. The Treasury Management Strategy incorporated within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.

The Committee's attention was drawn to a review of Minimum Revenue Provision (MRP) undertaken by the Council's treasury advisors which revealed that an over-provision had been made over a number of years. The Council therefore proposed to offset MRP by an over-provision from 2019/20 onwards, a view which was supported by its treasury advisors and CIPFA. However, Grant Thornton did not presently consider this was permissible under the regulations so the Council were seeking legal advice on the proposal. Depending on the outcome of this, the report to Cabinet may need to be amended. The issue would be resolved before the February Council meeting and Members would be updated on the outcome.

The revenue implications of this proposal were queried and Members were advised that the revenue budget currently assumed a contribution to unusable reserves and the proposed change would allow this contribution to be allocated to useable reserves in order to help improve the financial sustainability of the Council.

A discussion took place about the recent rise in rates by the Public Works Loan Board (PWLB) and whether there were any other options available to the Council for borrowing. Members were advised that most borrowing recently was with other local authorities rather than the PWLB. It was possible that other lenders such as insurance companies may enter the market and the Council would monitor this to see if they offered competitive rates.

Some concern was expressed about high levels of Council borrowing to fund the capital programme and whether the Council was borrowing significantly

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more than the average. Officers advised that the estimated borrowing figures for the next few years reflected the Council's ambitious regeneration programme and the Council was not out of step with similar councils. The Council would only ever borrow what it could afford to repay. The Council's treasury advisors considered its approach to be prudent.

Following comments about how the report could be difficult to understand in places, it was agreed that reports should be made clearer in future without losing any of the detail. Members' thoughts on this would be welcomed.

Decision:

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

526 Audit and Counter Fraud Update to end of November 2019

Discussion:

The Committee considered a report which provided an update on the work, outputs and performance of the Audit and Counter Fraud Team for the period 1 September to 30 November 2019.

The Head of Audit and Counter Fraud Shared Service Manager updated some of the information in the report by advising that the reported net loss of approximately 101 days from the original resource budget of 1,249 days for Medway now stood at 83 days and, also, 55% of the Plan had now been delivered with 13% of it now underway.

Members discussed what criteria were used to decide what should be added to the Plan and what needed to come out and also what the mechanism was for following up on recommendations which were more than 6 months old. Officers advised that a risk assessment approach was adopted which involved looking at any objectives in the Council Plan which could be impacted and issues which the Team became aware of or were alerted to by other services. The highest risk areas would then form the Plan.

Any changes to the Plan would be as result of the Team no longer being able to deliver them due to staff sickness etc. or new priorities which had emerged. Outstanding recommendations were reported to the Corporate Management Team quarterly and the Team followed up on these on a monthly basis. In addition, service managers were reminded 3 months in advance of deadlines. Several of the outstanding recommendations related to the Finance Operations Team whose main focus over the last year had been on implementing several new key finance systems.

It was noted that the "Adult social care - assessments & reviews of care packages - Adults with Physical Disabilities" review had been deferred at the last meeting of the Committee and not, as stated in the report, removed from the Plan.

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The Head of Audit and Counter Fraud Shared Service agreed to include in future reports anticipated start dates for reviews.

Regarding a suggestion that another informal meeting take place between the Audit Committee of both Medway and Gravesham Councils to discuss the joint service, the Head of Audit and Counter Fraud Shared Service undertook to discuss this with the Chairman of Gravesham's Audit Committee.

Decision:

The Committee agreed to:

- a) note the outputs and performance of the Audit and Counter Fraud Plan for Medway for the period 1 September to 30 November 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 Appendix 1 to the report:
 - i) Payroll (15 days) – defer to 2020-21.
 - ii) General Ledger (10 days) – defer to 2020-21.
 - iii) Recharges (15 days) – defer to 2020-21.

527 Audit and Counter Fraud Charter

Discussion:

The Committee considered a report seeking approval of the Audit and Counter Fraud Charter.

Decision:

The Committee agreed to approve the Audit and Counter Fraud Charter as set out at Appendix 1 to the report.

528 National Fraud Initiative Progress Report

Discussion:

The Committee considered a report which provided Members with an update on the work and outputs from the National Fraud Initiative (NFI) exercise for the period 1 September to 30 November 2019.

In response to queries about the cost effectiveness of the exercise, Members were advised that there was some overlap in matches and some elements, such as Council Tax, were much more likely to yield results than other areas, such as Housing Benefit. The fact that the Council took a robust stance on fraud was in itself helpful in preventing fraud. In addition to the NFI data matching exercise the Council also matched data with other Kent authorities and the aim was to do this more frequently and in a more targeted way.

Decision:

The Committee agreed to note the performance of the Audit and Counter Fraud Team and other services in relation to the National Fraud Initiative.

529 Consideration of Consolidating the Accounts of Council Owned Subsidiaries

Discussion:

Members considered a report regarding the requirements of International Financial Reporting Standards (IFRS) 10,11, and 12, being Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities respectively, and explored whether the Council was required to produce group accounts within the financial statements for 2019/20.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Accounting Code of Practice set out a requirement to prepare group accounts where an authority had interests in subsidiaries, associates and/or joint ventures, subject to consideration of materiality. A subsidiary was defined as an entity where the authority was exposed to (or had rights to) variable returns from its involvement with the entity and had the ability to affect those returns through its power over the entity. For the Council, Medway Commercial Group (MCG) and Medway Development Company (MDC) fell into this category.

Members were advised that the Chief Finance Officer had concluded that the Council was not required to produce group accounts for 2019/20.

In discussing the report Members expressed the view that given the potential for MCG and MDC to impact on the Council's accounts then it was important that the Committee had the ability to consider financial information relating to these bodies, particularly given significant amounts of public money were involved. In addition, it was very likely that the Council would decide to set up further companies in the future.

Officers advised there was a distinction to be made between having the oversight that Members wished to have and the issue of group accounts as the latter would not provide sufficient financial information to allow any meaningful oversight.

In conclusion, Members considered that the Council should be asked to broaden the remit of the Committee to allow it to consider the financial information of companies and joint ventures set up by the Council.

Decision:

The Committee agreed to:

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- a) note the regulatory requirements for consolidation of Council owned subsidiaries into financial statements and the decision of the Chief Finance Officer that these do not need to be produced for 2019/20, and
- b) recommend to Council that its terms of reference be amended to allow for the consideration of financial information for each year of any companies and joint ventures set up by the Council.

Chairman

Date:

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