

**Medway Council**  
**Meeting of Audit Committee**  
**Thursday, 30 July 2020**  
**7.00pm to 9.35pm**

**Record of the meeting**

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

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

**Substitutes:** Councillor Thorne for Hackwell.

**In Attendance:** Katey Durkin, Head of Finance Strategy  
Perry Holmes, Chief Legal Officer/Monitoring Officer  
James Larkin, Head of Audit and Counter Fraud  
Jonathan Lloyd, Finance Business Partner - Corporate Services  
Jon Pitt, Democratic Services Officer  
Phil Watts, Chief Finance Officer

**136 Election of Chairman**

Councillor Tranter was elected Chairman for the 2020/21 Municipal Year.

**137 Apologies for absence**

Apologies for absence were received from Councillor Hackwell with Councillor Thorne substituting.

**138 Record of meeting**

The record of the meeting of the Committee held on 7 January 2020 was agreed and signed by the Chairman as correct.

**139 Urgent matters by reason of special circumstances**

There were none.

**140 Disclosable Pecuniary Interests and Other Significant Interests**

Disclosable pecuniary interests

There were none.

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### Other significant interests (OSIs)

Councillor Gulvin declared an OSI with regards to any reference to Medway Development Company Ltd (MDC) as he was a Board Member of MDC. He relied on a dispensation granted by the Councillor Conduct Committee to enable him to take part in any discussions and votes thereon.

### Other interests

Councillor Gulvin declared an other interest in the audit reports on the agenda, report numbers 8, 9, 10 and 11, as these related to his Cabinet Portfolio.

## **141 Review of Audit Committee Terms of Reference**

### **Discussion**

Ahead of the report being considered, the Committee expressed thanks to officers in the audit and fraud teams for all their hard work in dealing with grant related activities in recent months and who had helped make sure as many Medway people as possible benefitted from the additional support available.

The Committee then considered a report which asked it to review its Terms of Reference and to recommend to Council any changes Members considered necessary. Following a review by officers, the Terms of Reference remained in line with best practice and it was recommended that the Committee continue to operate under the existing Terms of Reference. It was noted that a previous revision had been made to the Terms of Reference to enable the Committee to review financial information associated with the Council's limited companies. This had been agreed by Council in April 2020.

During discussion it was suggested that the Terms of Reference should remain unaltered. It was also suggested that the Corporate Risk Register should be considered by the Committee at a future meeting and that consideration should be given to adding to the Terms of Reference a specific requirement for any Cabinet Portfolio Holder or Council officer to attend Committee, when requested, to discuss audit or fraud matters relating to their area of the Council. It was not anticipated that any such power would not be used on a regular basis.

The Chief Legal Officer advised that Cabinet received the Corporate Risk Register and that all information was in the public domain. There were some more detailed team specific risk registers but nothing at a corporate level. In relation to the suggestion that the Committee Terms of Reference be amended, this was a matter for the Committee to consider although it seemed unlikely that a Councillor or Council officer would refuse a request to attend Committee. Should the Committee be minded to recommend a change to its Terms of Reference, the request would need to be determined by Council.

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Following a Committee request, the Chief Legal Officer undertook to consider the possibility of an independent member joining the Committee and to report back to the Committee accordingly.

### **Decision**

Following a review of the Committee's Terms of Reference, no amendments were proposed as they remained relevant and reflected best practice and the Audit Committee was recommended to continue to operate under the existing Terms of Reference.

## **142 Treasury Management Outturn Annual Report**

### **Discussion**

The Committee considered a report that provided an overview of treasury management activity during 2019/20. Capital expenditure had exceeded the level set out in the Treasury Strategy that was approved by Committee in January 2019. The capital financing requirement had been higher than in 2018/19. External borrowing had risen but by less than the amount predicted within the Strategy. The amount of cash held had been boosted by borrowing at the end of the year with net and gross borrowing being below the capital finance requirement. It was noted that local authorities were only permitted to borrow to fund capital expenditure rather than revenue expenditure. A consultation was due to end on 31 July 2020 in relation to use of Public Works Loan Board (PWLB) borrowing. It was hoped that this would lead to interest rates being reduced as the relatively high rates at present had made this form of borrowing prohibitively expensive. Returns on investment had fallen, although performance compared to peer local authorities had improved in 2020/21.

It was questioned why the forecast general fund borrowing, at £41,964,000, was significantly below the actual requirement of £55,251,000; how the Capital Financing Requirement (CFR) was produced and whether it was expected to increase. The Finance Business Partner - Corporate Services advised that the capital programme was constantly evolving with extra schemes being approved by the Council during the year. It was, therefore, sometimes necessary to revise forecasts. In relation to the commentary set out at paragraph 4.4 of the report about CFR reduction, the Committee was advised that this was an explanatory note rather than a proposal. The Chief Finance Officer added that the Capital Strategy set out the Council's investment aspirations. This had been agreed in September 2019 and it was inevitable that some slippage would occur. It was clarified that the report presented was not advocating the use of capital receipts in order to reduce CFR.

In view of treasury investments having increased prior to Covid-19, it was asked what was anticipated in the future and in relation to property fund investment, it was asked what was expected to happen to this income. Commentary was requested on why the Council did not have cash balances to

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place deposits for more than one month. It was also asked how it would be ensured that short term borrowing would be minimised in the future. It was further asked whether consideration had been given to the Council issuing its own bonds now that this was permitted.

The Finance Business Partner - Corporate Services said that £15m extra had been borrowed towards the end of the year to ensure that the Council had sufficient cash, with a view to the emerging pandemic and that this borrowing distorted investment figures. In relation to property funds, there were some funds which could not be redeemed immediately, however this provided some protection to the Council by preventing other investors getting an unfair advantage by withdrawing at the current time when it was difficult to value the underlying assets.

Valuations provided in the report were as of 31 March 2020, with capital values having fallen but with dividend levels still being good. The authority did not normally maintain significant cash balances in order that net borrowing could be kept as low as possible. The aim was to move to more long term, rather than short term loans. However, the viability of this depended on PWLB interest rates being reduced. In relation to the possible issuance of Council bonds, this was not currently being considered as bond issues lacked flexibility and the minimum amount of bonds that would need to be issued being significant at around £50 million. The Chief Finance Officer said that some short-term loans had been taken out due to the PWLB rates currently being relatively high and with the expectation that these would reduce in the future.

### **Decision**

The Committee approved the treasury management outturn annual report.

## **143 Audit and Counter Fraud Annual Report 2019/20**

### **Discussion**

The Committee considered the Audit and Counter Fraud Annual Report. This outlined the performance of the service against the annual work plan for 2019/20 and brought together information presented in previous updates during the year. The opinion of the Chief Audit Executive was that they were satisfied that adequate and effective audit controls were in place and that where weaknesses had been identified, recommendations for improvement had been accepted by management with there being a commitment to implement the recommendations.

The resources available to the service stated in the report were based upon a projection at the start of 2019/20. There were a projected 1249 days available for audit and counter fraud work with the number of available days having been impacted by unexpected in year vacancies and Covid-19. 1216 days of audit work had been delivered by 31 March 2020, with 1046 days having been spent on productive audit and counter fraud work. Additional days had been spent on work for other service areas, with audit having been identified as a non-

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essential function during Medway's emergency response to Covid. This had resulted in staff being redeployed to other Council services, with the audit function having been effectively shut down between late March and late April.

A number of audit reviews were incomplete as of 31 March 2020 due to the cessation of the service. Upon recommencement of audit activity, resources were targeted to completion of outstanding actions from 2019/20 that had already been 75% or more complete. The Quality Assurance and Improvement Programme monitored performance against 24 indicators. Indicator A&CF1 showed that the total cost of the shared service was £570,652, with Medway's share being £377,440. Meanwhile, the value of recoverable losses and savings identified by the service was £345,118. As of 31 March, 77% of recommended audit actions had been implemented.

In relation to delays of six months or more in implementing audit recommendations, it was suggested that should there be a re-occurrence in future years, relevant officers should be asked to attend the Committee to explain the issues and that the relevant Portfolio Holder should also be held to account. It was asked whether there had been a reduction in outstanding recommendations since 31 March.

The Head of Audit and Counter Fraud Shared Service said that there was a good working relationship with Gravesham Council. Audit recommendations that were over six months old were raised with the relevant service on a monthly basis in order to track progress. An update report had been compiled in June and followed up during July. It was anticipated that some of the outstanding actions relating to Medway Commercial Group accounting and governance would no longer be required. An updated policy in relation to performance data quality was due to come into effect on 31 July 2020. The Corporate Management Team received audit reports on a quarterly basis and so were aware of progress. Directors were then responsible for holding Assistant Directors and Service Managers to account. These arrangements had been in place for a year and were considered to have made a difference with the number of outstanding audit actions at the end of June 2020 being less than at the end of June 2019.

Concern was raised that an audit recommendation in relation to the General Data Protection Regulation (GDPR) had not been implemented. Concern was also raised that only 3 of 13 recommendations relating to the Children and Adults Imprest account had been implemented. The Head of Audit advised that issues relating to Children's Imprest were monitored by the Corporate Management Team with the Assistant Director within the Children's and Adults Directorate having re-drafted a policy in relation to section 17 of the Children Act. This was due to be signed off on 30 August, with it being anticipated that audit recommendations would be implemented as a result. In relation to GDPR, the Chief Legal Officer acknowledged its importance. Engagement was taking place with services to complete the work but resource limitations and the impact of Covid-19 meant that the work could not progress as quickly as liked. Risk was being managed with the areas identified as having the highest risk being addressed first.

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It was requested that a meeting be arranged for the Chairman of the Committee to meet with the Head of Audit to discuss issues relating to outstanding audit actions.

### **Decision**

The Committee:

- i) Noted the work undertaken by the Audit and Counter Fraud Shared Service for Medway during 2019-20 in providing an effective service to the Council.
- ii) Considered and endorsed the opinion on the Council's internal control environment provided by the Head of Audit & Counter Fraud Shared Service, that Medway Council's framework of governance, risk management and system of internal control is adequate and effective, and contributes to the proper, economic, efficient and effective use of resources in achieving the council's objectives.

### **144 Revised Audit and Counter Fraud Plan 2020-21**

#### **Discussion**

The Committee considered the revised Audit and Counter Fraud Plan 2020-21. This would normally have been presented to the Committee for approval in March 2020 but that meeting had been cancelled due to Covid-19. Due to the impact of Covid-19 and the emergency response, Audit and Counter Fraud had effectively lost the first quarter of the year. The revised presented to the Committee covered the period 1 July 2020 to 31 March 2021. Quarterly reviews were undertaken with the focus on areas that were checked frequently and in receipt of a positive audit opinion, being on ensuring that controls remained effective, without the need for wider review. This enabled resources to be directed elsewhere with it not having been possible to include every review that had been included in the original 2020/21 Plan.

It was questioned how the audit items removed from the current iteration of the Plan had been identified and whether they would be rescheduled, with Public Health Improvement highlighted as an area that would be an important area to retain. It was also suggested that the Committee could play a specific role in the audit of the Council's Covid-19 related expenditure and it was asked what preparations were being made for a possible second wave of Covid-19.

The Head of Audit and Counter Fraud Shared Service said that levels of overall risk had been considered when identifying which audit activities to remove from the Plan. In relation to Public Health Improvement Plans, the existing plans would not relate to Covid and therefore new Plans needed to be developed ahead of any meaningful audit activity being undertaken. Audit of parking enforcement was another area that had been identified for deferral as the shutdown of courts during the pandemic had meant that enforcement activity

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could not be undertaken as usual. The audit service had been heavily involved in fraud prevention work relating to the business support grant funding. Post payment data matching was likely to be undertaken to identify any fraudulent applications where a grant had been paid.

In the event of a significant second wave of Covid-19 it was likely that usual audit work would cease or be reduced. In this scenario, it may be that only limited assurance work could be undertaken by Spring / Summer 2021, but it was difficult to plan for such eventualities until the extent of any Covid-19 resurgence was known.

The Chief Finance Officer said that significant sums of grant funding had been provided by the Government, in relation to Covid-19, for businesses, business rate payers and council tax payers. A total of £40million had been paid in Medway, with the Council being responsible for processing applications. 4,000 applications had been received for small business grants with 3,000 having been paid. The remainder had been rejected due to being duplicates, ineligible or potentially fraudulent. The Council had been provided with other ring-fenced funding related to Covid-19, which covered activity such as infection control in care homes and outbreak control measures. The Council's Gold and Silver Covid-19 command structures were responsible for determining how this funding be allocated. A further £16.5 million had been provided of non-ring fenced funding.

In response to a question, the Committee was advised that Audit had not been invited to take part in the Housing Infrastructure Fund (HIF) Working Group. However, there were strict regulations that must be adhered to in relation to HIF funding and how it could be spent.

It was requested that a report be presented to the next meeting of the Committee to provide detail of the HIF process and how this would be managed.

### **Decision**

The Committee:

- i) Approved the revised Audit and Counter Fraud Plan 2020-21 for Medway.
- ii) Agreed that the Head of Internal Audit and Counter Fraud be given authority, following consultation with the Chairman of the Committee, to make urgent changes to the Plan where it is not practicable to seek approval from the Committee and that any such amendments to the Plan be reported to the next meeting of the Committee for information.

## **145 Review of Audit and Counter Fraud Quality Assurance and Improvement Programme**

### **Discussion**

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The Committee considered a report relating to a review of the Counter Fraud Quality Assurance and Improvement Programme. This had originally been due to be presented to the Committee in March 2020 but the meeting had been cancelled due to Covid-19. There was a requirement for the Programme to be reviewed annually to ensure that it reflected the work of the service. Three changes were being proposed to the performance measures within the programme.

It was suggested that there should be targets for the amount of time spent on audit work compared to fraud work. In view of the proposed removal of targets for the percentage of productive time spent on assurance, consultancy and counter fraud work, concern was expressed that time would be taken up by unplanned work.

The Head of Audit and Counter Fraud Shared Service said that the only change being proposed to performance indicator PM9 was removal of the word 'productive' as the use of this word could give the impression that audit staff were not doing any work when not undertaking chargeable work. They would, in fact, be undertaking other duties. Targets had previously specified that 65% of time should be spent on audit work and 35% on fraud. In view of changing circumstances, maintaining such targets was no longer considered to be helpful as the service needed to maintain flexibility in order to respond effectively as risks were identified. 15 days was allocated for each audit review but some overrun was inevitable due to case complexity and new information coming to light during a review.

### **Decision**

The Committee approved the Audit and Counter Fraud Quality Assurance and Improvement Programme.

## **146 Audit and Counter Fraud Shared Strategy 2020-24**

### **Discussion**

The Committee considered the Audit and Counter Fraud Shared Strategy 2020-24. This would replace the previous Strategy, which covered 2016 to 2019, the first four years of the shared service. There was no formal requirement for the service to have a strategy, but it was considered to be a useful tool. The three strategic objectives of the Strategy remained unchanged. Further opportunities for development of the service would be explored over the next four years.

### **Decision**

The Committee approved the Audit and Counter Fraud Shared Service Strategy 2020-24.

## **147 Annual Governance Statement**



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### **Discussion**

The Committee considered the Annual Governance Statement, which it was being asked to approve. The Statement formed part of the Council's accounts and was based upon CIPFA guidance. During the Covid-19 pandemic, CIPFA had invited councils to indicate the impact its impact on governance.

During discussion it was highlighted that previously issued CIPFA guidance had said that the Annual Governance Statement should focus on outcomes and value for money, therefore, these areas should have been made more explicit in the Statement. The Chief Legal Officer said that the Statement provided assurance and that value for money was covered more explicitly in the Statement of Accounts.

It was suggested that the Statement should include 3<sup>rd</sup> line independent oversight in relation to internal and external audit and that there should be external validation of the Statement on at least a biennial basis. It was further suggested that external validation could be achieved through the appointment of an independent member of the Audit Committee.

The Chief Legal Officer said that value for money was considered by external audit and that this was an important part of the overall audit judgement of the Council's accounts. The Head of Finance Strategy added that the Annual Governance Statement formed part of the Council's accounts which were reviewed by external auditors. The audited financial statements were due to be presented to the Committee in November so there would therefore be time for the Annual Governance Statement to be amended following the Committee meeting.

There was further discussion whether to request that more explicit reference to value for money be included in the Statement. In view of this it was decided to defer the Committee's approval of the Statement until the next meeting in September 2020.

### **Decision**

The Committee deferred approval of the Annual Governance Statement to its next meeting, pending further discussion of the concerns raised and possible revision of the Statement.

### **Chairman**

**Date:**

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