

Medway Council
Meeting of Audit Committee
Thursday, 17 March 2022
7.00pm to 9.06pm

Record of the meeting

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

Present: Councillors: Thorne (Chairman), Browne, Gulvin and Tejan

Substitutes: Councillors: Maple (for Councillor Osborne)

In Attendance: Phil Watts, Chief Operating Officer
James Larkin, Head of Internal Audit & Counter Fraud Shared Service
Ade Oyerinde, Senior Manager, Audit, Grant Thornton UK LLP
Chris Giles, Housing Strategy and Partnership Manager
Stephanie Davis, Democratic Services Officer

751 Apologies for absence

Apologies for absence was received from Councillor Osbourne.

752 Record of meeting

The record of the meeting held on 4 January 2022 was agreed and signed by the Chairman as correct.

753 Urgent matters by reason of special circumstances

There were none.

The Chairman informed the Committee that following a request from officers for approval of Statement of Accounts 2020/21 Audit work to commence ahead of the meeting this evening, this had been agreed on behalf of the Committee following discussion and agreement with the Opposition Spokesperson Councillor Osbourne.

754 Disclosable Pecuniary Interests and Other Significant Interests

Disclosable pecuniary interests

There were none.

Other significant interests (OSIs)

Councillor Gulvin declared an OSI on agenda item 8 (Annual Audit Letter 2019/20) and Item 9 (Audit Plan Update for the Year Ending 31 March 2021) which included references to Medway Development Company (MDC) Ltd because he was a Director of MDC and he relied on a dispensation granted by the Councillor Conduct Committee to take part and vote in any discussions.

Other interests

Councillor Maple disclosed that he was the Chair of the Kent Fire and Rescue Audit and Governance Committee.

755 Homes England Audit Report

Discussion:

The Housing Strategy and Partnership Manager introduced the report which outlined required actions following a successful bid to Homes for England and receipt of £5000 to refurbish a Medway Council flat that was then used to house people that were formerly homeless. As per the contract terms, the Council was chosen to be audited and was found to be fully compliant. The Committee was being asked for agreement to register the final stage of the audit process.

Disappointment was expressed that an audit had to take place on bids for modest sums of monies, due to the costs involved in the audit process. It was suggested that it would be more cost effective for Local Government to be adequately funded so that Local Authorities did not have to spend resources on completing bids of this type.

Decision:

The Committee agreed to acknowledge the findings of the report and recommend that it be entered onto the Homes England IMS system.

756 Audit Progress Report and Sector Update

Discussion:

The Senior Manager, Grant Thornton introduced the report and advised the Committee that the report set out responsibilities as well as progress, including

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the timetable for 2021. The audit work would be carried out in two phases with a report presented to the Committee at its September meeting. The value for money work was being completed under the new code and would run concurrently with accounts work. A free workshop for accountants to network, share learning and discuss key developments had taken place, which was well attended by officers at Medway Council.

In response to a question on timeline of the audit report being presented prior to statutory deadline, the Chief Operating Officer informed the Committee that nationally, audits were behind statutory deadline.

In response to a question on how the current criminal investigation that was taking place with a particular group would manifest in the annual letter, the officer advised that the financial audit would focus on any issues with governance arrangements, financial and residual loss to the Council, and would comment on this in the letter as appropriate.

Decision:

The Committee noted the content of the Audit Progress Report and Sector Update.

757 Planning Inquiries Informing the Risk Assessment 20/21

Discussion:

The Senior Manager, Grant Thornton introduced the report and highlighted that as part of the 2021 revision ISA work, questions were posed to the Council, the responses were collated and presented in the report.

Members then raised a number of questions and comments: In response to a comment on laws and regulations and that the majority of work at Medway was completed by inhouse legal teams, the Committee was advised that the majority of work was indeed carried out by the in-house legal teams with specialist legal advisors sought as needed.

It was asked if any of the questions were as a result of the current position of the Council. The officer said that the questions presented were generic.

Decision:

The Committee noted the responses as set out in the report.

758 Annual Audit Letter 2019/20

Discussion:

The Senior Manager, Grant Thornton presented the report and advised that the letter sets out the summarised details of the audit findings that would be published on the Council's website.

New information drawn to the Committee's attention was one item in relation to the fee element at the end of the report, this had now been finalised as £183,341.00. The whole of government accounts was no longer required to be completed which enabled the finalisation of the audit and enabled the letter to be issued.

Members then raised a number of questions and comments which included:

Fees – Concern was raised at the 50% increase in fees which was considered a substantial increase, and it was asked if this increase was for all unitary authorities. The Officer advised the fee increase was partly increased regulatory factors and partly local factors. The requirement in changes to ISAS required more work to be done for compliance and this increased the trajectory in requirement of what needed to be done, this impacted on costs to the authorities.

The Chief Operating Officer added that the first element of the fee increase outlined the additional requirement put upon the auditors by the Financial Reporting Council (FRC) and this was acknowledged and accepted. Across the sectors, the additional fees were questioned in terms of whether the sums were appropriate and was challenged with the Public Sector Audit Appointments (PSAA) who made some very minor adjustments. The fees for the 2021 level would be discussed in detail in due course.

Concern was raised at the £25,000 increase for a delay as a result of Covid and some of the uplift was as a result of external factors that auditors should be aware of. It was suggested that new practices should be put in place which should mean a reduction going forward.

It was proposed that a letter from the Chair and Opposition Spokesperson regarding fees be sent to the PSAA as the level of increase was not acceptable. It should be pointed out that where there were increases enforced by external factors and new processes should be in place to give clients a reduction.

Journals - clarification was sought whether the findings and conclusions on management override of controls under the heading of significant risk showed that the Council had Complied. The officer said that due to the manual systems in place for general approval it meant that the auditors struggled to evidence that it was operating as designed. The testing identified two journals with classification errors but there was no evidence to suggest that journals were not

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being approved by the team and the rest of the testing did not identify any other issues.

The Chief Operating Officer added that there was an ambition for an automatic system to be put in place for journals and was working to get that agenda progressed as part of an upgrade of the financial monitoring system.

Value for Money - in response to a comment that, had it not been for the Council's position as a result of its Ofsted rating, the audit would have resulted in an unqualified sign off, the officer acknowledged that this was the case.

It was also asked if the assumption for 2022/23 of the mid term financial strategy took into consideration world issues, such as interest rates and if this would impact the figures presented. The officer advised that the letter was written prior to some of the world events that had since been experienced. The work being carried out as part of the new code would include the value for money work and the annual auditors report, which replaced this annual auditor's letter from 2021, would set out some of the key areas including the mid-year financial report that would reflect some of the changes experienced to date.

Decision:

- a) The Committee agreed to note the content of the Annual Audit Letter for 2019/20.
- b) The Committee agreed that the Chairman and Opposition Spokesperson send a letter to the PSAA regarding the unacceptable level of fee increase.

759 Audit Plan Update for the Year Ending 31 March 2021

Discussion:

The Senior Manager, Grant Thornton presented the report and advised that the Plan came to the Committee in June 2021 and at the time it was completed apart from the materiality for completion of group audits. This is the first year that group audits would be presented. The draft financial statement and completion of initial plans had been included in the updated plan which set out the group materiality at £9.2million and Council materiality at £9million.

Members then raised a number of questions and comments which included:

South Thames Gateway Partnership (STG) - In response to a question as to why STG was not on the list of organisations, the Chief Operating Officer said that STG was not an entity but a shared service, a partnership so featured in each local authority's accounts to the extent that the assets and liabilities related to that entity and did not have to be consolidated in group accounts.

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Covid related grants – It was asked if Covid related grants would be part of the Grant Thornton audit. The officer said it formed part of the testing strategy and would be looked at as part of the review.

Capitalisation - In response to a question on issues with capitalisation and why allowances could not be made for overhead costs, the officer said that the rules set out were within the code and allowed for some elements of overhead to ensure that what was being capitalised was within the rules. The expectation was that this year, any capitalisation would be within the rules set and details would be shared in the findings report.

Further information was requested on the Property Plant and Equipment assets of £680,000 that had not been revalued.

Decision:

The Committee agreed to note the updated Audit Plan for 2020/21 including the variation to the core fees from 2019/20 and those proposed for both the core fees and other audit services for 2020/21.

760 Counter Fraud Plan 2022-23

Discussion:

The Head of Internal Audit & Counter Fraud Shared Service introduced the item and informed the Committee that in previous years they had presented an Annual Internal Audit and Counter Fraud Plan. Despite there not being a requirement, in line with internal reconfigurations, a separate Counter Fraud Plan was developed for 2022/23. This was in line with best practice as local authorities usually separated the plans. This new plan provided an indication on the intended use of resources, but Members were reminded that some of the work intended to be carried out was aspirational due to the reactive nature of the service. Members would be provided with periodic update reports that would be separate to the internal update reports.

Members then raised a number of questions and comments which included:

Collection of parish council precepts - A question was raised on Medway's position as a billing authority that collected the precept for Parish Councils and whether some awareness work could be carried out as a means of fraud preventative work. The officer advised that a Member training session would take place on 13 April 2022, and it would be extended to Members of the Council, Parish Councillors and their clerks as requested by the Committee.

Home working challenges - It was asked what thought had been given to challenges as a result of staff working from home, despite safeguards that had been put in place. The officer advised that working from home benefitted the

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service as much as staff in terms of flexibility. Concerns were shared and fraud awareness training would be explored across the different areas of the service.

Decision:

The Committee approved the Counter Fraud Plan 2022-23

761 Internal Audit and Counter Fraud Update

Discussion:

The Chairman took the opportunity to congratulate Jordan White on winning the best newcomer award at the public sector counter fraud awards ceremony.

The Head of Internal Audit & Counter Fraud Shared Service introduced the report which was the final update prior to the final report. The report showed impact on resources and how they were used. The last vacant post had been filled on 21 February 2022. The report detailed the reviews that had been finalised since the last report. Detail in relation to counter fraud investigations could not be provided as the new software required to provide the detail only went live on 14 March, and therefore the detail required would be presented in the next report. It was hoped that the department would meet its target of 95% audit completion by 31 March 2022. Two outstanding actions had been passed onto the Head of HR who had asked for time to complete the actions.

Members then raised a number of questions and comments which included:

Terms of reference - It was asked if the term of reference were standard. The officer advised that parts of the terms of reference were standard, but the defined scope of work was based on the initial work of the auditors, which determined what they would review and report on. The Plan presented the high level scope of the work to be completed over the year.

Bank accounts for LAC - In relation to a question on bank accounts for Looked after Children (LAC) and if the tender process would include high street lenders, the officer said that the Business Change team was working with children's service on how best to approach this and comments from the Committee would be fed back to them.

Learning - Assurance was sought that learning was being taken forward and used to ensure protection of taxpayer's money. Officers confirmed that services were expected to use learning adequately and to ensure that knowledge was retained within services.

Write offs - Concern was raised on the high number of write offs. In response, the Chief Operating Officer advised that the write off procedure was being reviewed. The corporate debt forum was established to manage debt appropriately and historically this had not occurred, which resulted with debts on the balance sheet that should have been written off sooner. Through the

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forum, formalisation of a policy was occurring to improve processes to ensure debts were not generated.

Decision:

The Committee noted the outputs and performance of the Internal Audit & Counter Fraud Service for Medway for the period 01 December 2021 to 31 January 2022.

762 Internal Audit Plan (Q1-Q2) 2022-23

Discussion:

The Head of Internal Audit & Counter Fraud Shared Service introduced the report and informed Members that the plan was part of a requirement for the Audit Standards and outlined how the internal Audit resource was intended to be used throughout the year. The plan was formulated using a risk assessment covering six categories including priorities contained in the Council Plan. The audit plan presented only covers the first six months of the year due to the fact that the risk assessment was undertaken in January, and there could be changes to the risk landscape. The risk assessment would be refreshed in July and the plan updated as necessary for the second half of the year, which would be provided to the Committee for approval alongside the first update report at the September meeting of the Committee

Members then raised a number of questions and comments which included:

Level of flexibility - The principle of level of flexibility detailed in the plan was supported but confidence was sought that the system could maintain continuity of practice. The officer said that reviews were allocated across all six auditors and the flexibility would also mean responding to changes in available resources would be easier and ensure continuity of the service.

Organisational resilience - Members commented that the resilience of the organisation, through the outstanding performance of staff, was commendable. However, it must be recognised that the response by officers over the last 20/24 months could not continue and was not sustainable long term and this had to be built into future business continuity plans. This information would be passed to the officer conducting the business continuity review.

Decision:

The Committee agreed to approve the Internal Audit Plan (Q1-Q2) 2022- 23.

763 Internal Audit Quality Assurance & Improvement Programme

The Head of Internal Audit & Counter Fraud Shared Service presented the report and informed the Committee that the QAIP has been developed as

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required to ensure compliance with standards and would be reviewed annually. The document has been refreshed this year to remove references to counter fraud activity as there is no requirement to include them. The Committee would still continue to receive information around counter fraud performance but the indicators were now included within the counter fraud plan rather than the QAIP. The aim was to ensure that the most relevant information was captured and provided. Members would continue to receive accurate information.

Decision:

The Committee agreed to approve the Quality Assurance and Improvement Programme for use in 2022-23.

Chairman

Date:

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