

**Medway Council**  
**Meeting of Audit Committee**  
**Wednesday, 5 October 2022**  
**6.30pm to 9.13pm**

**Record of the meeting**

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

**Present:** Councillors: Thorne (Chairman), Edwards, Gulvin, Osborne and Tejan

**In Attendance:** Stephanie Davis, Democratic Services Officer  
Steve Dickens, Democratic Services  
Katey Durkin, Chief Finance Officer  
Bhupinder Gill, Assistant Director, Legal and Governance  
James Larkin, Head of Internal Audit and Counter Fraud  
Jonathan Lloyd, Finance Business Partner - Corporate Services  
Andy McNally-Johnson, Head of Corporate Accounts  
Ibukun Oluwasegun, Audit Manager, Grant Thornton  
Darren Wells, Audit Director, Grant Thornton

**263 Chairman's Announcement**

The Committee paid tribute to Councillor Pendergast who sadly passed away on 2 October 2022.

Members and officers present held a minute's silence in memory of Councillor Pendergast.

**264 Apologies for absence**

There were none.

**265 Record of meeting**

The record of the meeting held on 23 June 2022 was agreed and signed by the Chairman as correct.

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

There were none.

## 267 Disclosable Pecuniary Interests and Other Significant Interests

### Disclosable pecuniary interests

There were none.

### Other significant interests (OSIs)

Councillor Gulvin declared an OSI in agenda item 7 (Interim Auditor's Annual Report) because he is a Director of Medway Development Company Ltd (MDC) and he is also the Chairman of the subsidiary company Medway Development Company (Land and Projects) Ltd. He relied on a dispensation to take part and vote in any discussion.

Councillor Tejan declared an OSI in agenda item 7 (Interim Auditor's Annual Report) given that he had recently been appointed a Director of Kyndi Ltd.

### Other interests

Councillor Gulvin declared an interest in agenda item 7 (Interim Auditor's Annual Report), which referred to the Medway and Swale Integrated Care Partnership, to which he is a member of the Partnership's property forum.

Councillor Gulvin also referred to the Procurement Board and the Transformation Board, both of which he chairs, as well as the Council Plan and the Council IT service both of which are in his portfolio.

## 268 Annual Governance Statement 2021/22

### **Discussion:**

This report provided details of the requirements for reporting and approving an Annual Governance Statement (the Statement) covering the financial year 2021/22. The Assistant Director, Legal and Governance highlighted the opinion of the Head of Internal Audit and Counter Fraud that the Council had an effective framework for governance within the authority.

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

**Future reports** – in response to a request that future reports include where measures had been taken to reduce exposure to risk, the Assistant Director, Legal and Governance advised that where there were changes to governance following review, those changes would be agreed by management, be monitored and reported to Audit Committee. The Head of Internal Audit and Fraud stated the opinion provided in the Annual Governance statement was included in the Annual Internal Audit report which was considered by the Committee on 23 June 2022 and included those measures. In the past these reports had been considered by the Committee at the same meeting. The Assistant Director, Legal and Governance undertook to ensure the documents would be included on the same agenda in future years.

**Decision:**

The Committee approved the Annual Governance Statement.

**269 Speak Up, Anti Bribery and Anti-Money Laundering Policies: Report on instances September 2021 - August 2022**

**Discussion:**

This report provided Members with an annual update about the number and nature of concerns raised, between 1 September 2021 and 31 August 2022, under the Council's Speak Up, Anti-Bribery and Anti-Money Laundering Policies.

The Assistant Director, Legal and Governance highlighted there had been two complaints under the Speak Up Policy. Upon investigation, one was found to be unsubstantiated and in the other complaint the conduct of an employee and a contractor was found to have fallen short of the standards the Council would expect and management action was taken.

The number of complaints was in line with previous years. There were no complaints relating to Anti Bribery and Anti-Money Laundering Policies.

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

**Council's website** – it was commented that some old information relating to the Whistleblowing Policy was still accessible on the Council's website. The Chief Finance Officer advised that this may have related to a previous Committee decision to approve the document, which would remain accessible on the website. However, work was underway to review the Council website regarding archived documents.

**Council response to allegations** – In response to a question whether the Speak Up policy states how the Council responds to allegations found to be not accurate, the Assistant Director, Legal and Governance advised it was standard practice for the policy to include a statement that complaints would be dealt with as long as they are made in good faith. The Council has to be mindful that there are some people who may make complaints in bad faith.

**Comparative information** - In response to comments that it would be helpful to have numbers of complaints for other authorities for benchmarking, the Assistant Director, Legal and Governance undertook to include numbers of complaints from peer authorities in future reports. It was also commented that the report may benefit from having more than 3 years' worth of the number of complaints made under the Council's three policies.

**Third party complaints** – In response to a question about complaints to third parties such as Kyndi where the Council is the primary source of funding, the Assistant Director, Legal and Governance explained that the Council would

## Audit Committee, 5 October 2022

investigate if the complaint was made to the Council. However, if the complaint was made to the third party there was no formal process for it to be reviewed under the Speak Up policy but it could be taken up as part of contract management. However, third parties were private companies and should have their own policies.

**Risk rating** – In response to a comment by a Member relating to risk ratings, the Assistant Director for Legal and Governance advised that officers were undertaking work to review report templates to link to guidance on how the Council assessed risk.

It was commented that the Human Resource department communicated the policy well across the Council.

### **Decision:**

The Committee noted the contents of the report.

## **270 Interim Auditor's Annual Report**

This report provided the Committee with the outcome of the work of the Council's external auditors, Grant Thornton, to review whether the authority proper arrangements are in place to secure economy, efficient and effectiveness in the use of Council resources.

The Audit Director, Grant Thornton introduced the report and highlighted this was the first value for money report under the new code of practice. It considered the arrangements the Council had in place in three areas which were financial sustainability, governance and economy, efficiency and effectiveness. The report notes practice and areas for improvement.

The Committee was informed that the report identified one significant weakness which was Children's social services drawing on findings from Ofsted.

This was an interim report, most of the work had been completed and a final report would be produced at the end of the financial year. If at the time, there were further value for money issues Grant Thornton would provide an update report.

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

**Medium term financial strategy** – In response to a question on whether the medium term financial strategy was withdrawn from the September Cabinet meeting due to inadequate resourcing of the finance department, the Chief Finance Officer advised the report was not withdrawn, the meeting was cancelled due to the passing of HM Queen Elizabeth. The report would be considered at the 18 October Cabinet meeting. The Chief Finance Officer explained that the five year financial strategy was reduced to two years as a result of the Covid 19 Pandemic. The aspiration has been to return to five year projections in 2021 but this had not been possible due to the timing of the

## Audit Committee, 5 October 2022

government spending round, and the short term funding allocations made. It was envisaged that the five year statement would be published as part of the Council Budget in February 2023.

The Chief Finance Officer added that a restructure had recently taken place which had delivered savings and strengthened the financial management resource.

**Redirection of departmental funds** - it was asked how departmental budgets were redirected between directorates when restructures occurred. The Chief Finance Officer said that when services were shifted from one directorate to another, budgets were also moved where appropriate.

**Dedicated Schools Grant High Needs Block** – in response to a question on whether the position of the Dedicated Schools Grant was of concern, the Chief Finance Officer advised that this was an issue for many authorities where national grant funding had not increased to cover new burdens. The government had introduced a statutory override to enable local authorities to reflect this pressure in a deficit reserve and not have to offset this against general reserves, however the override would soon expire. The Council had enough funds in its reserve to cover this deficit if needed and was working to ensure that remained the case. The Council is also currently in discussion with Government on a Safety Valve Intervention Programme which would limit the impact this deficit on the Council's general fund.

**Medway Development Company (MDC)** – A member commented that the statement regarding the numbers of homes built by MDC (page 55 refers) was inaccurate. The MDC contributed around 20 homes to those built in the period rather than 1,130 stated.

**Members' role on third party companies** – in response to a comment relating to Cabinet Members being Directors, the Key Audit Partner, Grant Thornton acknowledged the difficulty of dual roles and issues found in other authorities. CIPFA best practice states that they are two separate distinct functions. A recommendation was made by Grant Thornton that going forward, consideration be given to moving away from the current arrangements of having Cabinet Members sit on subsidiary company boards as directors. It was commented that it would be important going forward to ensure that Cabinet Members that assumed Board roles be provided with extensive training as part of the induction process and support in order to effectively and confidently fulfil requirements of their role.

**Audit of third party Companies** - in response to a question on how the Council could receive audit assurance of the third party companies, the Chief Finance Officer advised that should the companies grow they would be subject to requirements to have internal audit and external audit processes which would seek for assurance on their operations. The Head of Internal Audit and Counter Fraud added that the Council had representation on those companies' Boards.

**Workforce strategy** - In response to a question on whether a whole workforce strategy is in place, the Chief Finance Officer explained that the Council did not currently have in place an overarching whole workforce strategy, however the workforce strategy to support the Children's Improvement Programme was in place. The wider organisation strategy was an area of work that was being considered by the Chief Organisational Culture Officer.

**Decision:**

The Committee noted the content, recommendations made and management responses in the Interim Auditor's Annual Report.

**271 Audit Progress Report and Sector Update For The Year Ending 31 March 2021**

This report provided the Committee with an update on the progress of Grant Thornton in delivering their responsibilities as the Council's external auditors, and also includes a summary of emerging national issues and developments that may be relevant to the Council

The Audit Manager, Grant Thornton introduced the report which included when key items would be delivered, interim audit results and sets out recommendations for action.

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

**Group accounts** - in response to a question on how group accounts would be presented the Head of Corporate Accounts stated that Medway Council's accounts would be presented both in its single entity accounts and consolidated with those of its subsidiaries in a set of Group Accounts, presented as a separate section including group core statements and appropriate group notes.

**Third Party companies** – in response to a question whether the Council received audit information from subsidiary companies such as Kyndi Ltd and whether this will cause delay for the Council, the Head of Corporate Accounts advised that Kyndi Ltd was audited however Medway Development Company was not currently audited due to its size. The Council worked closely with the financial leads at both subsidiaries and gained assurance from the information received from them. Grant Thornton that their own assurance processes in place, that would assist if there was an external audit of the companies.

**Medway Development Company (MDC)** – in response to a question on whether given the significant loans the company had taken from the Council there was any internal oversight of MDC if it is not externally audited, the Chief Finance Officer advised that in the year in question in the report, MDC's accounts were relatively small having not yet taken out much borrowing, and whilst currently not mandated to have an internal audit, in future years, this may be needed. It would be expected to provide information to the Council as requested and if it was found that information was not forthcoming, concern would be raised as appropriate through Board members. To date however, the

## Audit Committee, 5 October 2022

company and the Council's finance teams had a positive working relationship with the company maintaining transparency and sharing information openly.

### **Decision:**

The Committee noted the content of the Audit progress report and sector update from the Council's external auditors, Grant Thornton.

### **272 Treasury Management Outturn Annual report**

This report provided an overview of treasury management activity during 2021/22. The report stated that throughout the period the Council complied with its legislative and regulatory requirements and outlined key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators.

The Finance Business Partner - Corporate Services highlighted that capital expenditure for 2021/22 was £84m compared with a planned £154m at the beginning of the financial year and net borrowing was £219m compared with a planned £387m at the beginning of the financial year. The difference in borrowing was largely made up of the aforementioned capital expenditure and the vagaries of cash flow.

Borrowing remained below capital finance requirements, £70m of borrowing was scheduled to mature in 2022/23, that was now down to £35m. The Council was under significant pressure on the revenue side, one method to combat this was to use less expensive short term borrowing.

The value of the Council's property fund was now £25m, compared with the original cost of £21.9m.

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

**Borrowing 2022/23** – in response to a question relating to whether the change from £70m to £35m of borrowing maturing was due to debt payment or refinancing, the Finance Business Partner - Corporate Services advised that it was due to both. There was debt maturing most months, and this was sometimes refinanced, or the debt paid off. The mid-year report that would be presented at the next meeting of the Committee would contain detailed information.

**Interest rates** - in response to a question about the recent rise in interest rates and how this affected the Council's finances, the Finance Business Partner - Corporate Services explained that the Council's advisors continued to recommend that shorter term borrowing was preferable at this moment in time. Stress testing was being conducted on a regular basis based on predicted forecast over the next six months and approaches to borrowing would be changed as needed.

## Audit Committee, 5 October 2022

**Property fund** – Members commented it was positive news the property fund had grown.

### **Decision:**

The Committee noted the Treasury Management Outturn annual report.

### **273 Internal Audit Update Report 1 April to 31 August 2022**

This report provided Members with an update on the work, outputs, and performance of the Internal Audit Team for the period 01 April to 31 August 2022.

The Head of Internal Audit and Counter Fraud Shared Service introduced the report and reported there was one piece of work from 2021/22 to be finalised. There was reasonable progress being made in relation to key performance indicators and since the report was written, the proportion of agreed assurance reviews (page 138 refers) delivered had risen to 15% and underway 18%.

There had been a review of the plan for quarters one and two where some reviews were no longer suitable to progress, which assists with loss of resource.

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

**Housing Infrastructure Fund (HIF)** – in response to a question relating to the audit of HIF, the Head of Internal Audit and Counter Fraud advised that the review was scheduled to take place in July and August 2022 and remained delayed, the terms of reference for the audit were still being discussed.

**Staffing** – in response to a question regarding the percentage of qualified staff in the departments, the Head of Internal Audit and Counter Fraud noted there were national issues recruiting qualified auditors and whilst some staff did not possess industry qualifications, they were very experienced. There were two members of staff currently on the apprenticeship programme with one due to qualify and another apprentice had recently been recruited.

**Informal joint meeting** – in response to a question regarding the possibility of holding a meeting with Gravesham Borough Council the Head of Internal Audit and Counter Fraud agreed that an informal meeting of the two audit committees for the shared service could take place in 2023 if deemed appropriate. The Democratic Services Officer would work with Officers to discuss arrangements.

**Delay in completion of actions** - in response to a question on how delay in actions were escalated, the Head of Internal Audit and Counter Fraud informed the Committee that officers in the relevant service were contacted on implementation date for updates and there was also monthly contact regarding outstanding actions. Departmental Senior Officers received quarterly update reports on action follow up.



## Audit Committee, 5 October 2022

### Decision:

- a) The Committee noted the outputs and performance against the Internal Audit Plan for Medway for the period 1 April to 31 August 2022 as detailed at Appendix 1.
- b) The Committee approved the revisions to the agreed internal audit plan for Q1-Q2.

### 274 Counter Fraud Update Report 1 April to 31 August 2022

This report provided Members with an update on the work, outputs, and performance of the Counter Fraud Team for the period 01 April to 31 August 2022.

The Head of Internal Audit and Counter Fraud introduced the report and said that this was the first update on progress detailing use of resources and savings due to the work of the team. 274 investigations have been closed in the period with £242,000 in cashable savings and £4,000 in notional savings compared to the teams costs of approximately £142,000 for the year.

### Decision:

The Committee noted the outputs and performance of the Counter Fraud Team for Medway for the period 1 April to 31 August 2022.

### 275 Internal Audit Workplan for Quarter 3-Quarter 4 2022-2023

The Head of Internal Audit and Counter Fraud introduced the report and highlighted that resources have been focused to high risk areas. The risk assessments had been refreshed in July and the number of reviews reflect the loss of resource after one member of staff resigned.

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

**Resource constraints** - in response to a question on any areas of work that had not taken place due to resource constraints, the Head of Internal Audit and Counter Fraud advised that reviews relating to school procurement and certain areas of commissioning in Children and Adults services were no longer taking place, however there had been an independent review of commissioning as a whole.

**Frequency of Plans** - in response to a question on what frequency audit plans should be refreshed the Head of Audit and Counter Fraud advised that very few Local Authorities had annual plans, whilst some authorities had quarterly plans, a six monthly plan was considered good practice.

The Chief Finance Officer stated that she found a six monthly plan advantageous as it was responsive to the needs of the Council however it also

## **Audit Committee, 5 October 2022**

enabled senior management to provide capacity to ensure the work is completed.

### **Decision:**

The Committee approve the Internal Audit Plan (Q3-Q4) 2022-23

### **Chairman**

### **Date:**

### **Steve Dickens, Democratic Services**

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