

Medway Council
Meeting of Audit Committee
Tuesday, 10 January 2023
6.30pm to 8.02pm

Record of the meeting

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

- Present:** Councillors: Thorne (Chairman), Gulvin and Osborne
- Substitutes:** Councillors: Browne (Substitute for Edwards) Opara (Substitute for Tejan)
- In Attendance:** Steve Dickens, Democratic Services
Michael Kelly, Head of Category Management
James Larkin, Head of Internal Audit and Counter Fraud
Jonathan Lloyd, Finance Business Partner - Technical Accounting
Andy McNally-Johnson, Head of Corporate Accounts
Ibukun Oluwasegun, Audit Manager, Grant Thornton
Michael Turner, Principal Democratic Services Officer
Phil Watts, Chief Operating Officer
Darren Wells, Audit Director, Grant Thornton

488 Apologies for absence

Apologies were received from Councillor Edwards and Councillor Tejan.

489 Record of meeting

The record of the meeting held on 3 November was agreed and signed by the Chairman as correct.

490 Urgent matters by reason of special circumstances

There were none.

491 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 in agenda item 5 (Interim Audit Findings Report 2020-21 and Notification of Appointment of Auditor from 2023-24) and agenda item 6 (Treasury Management Strategy 2023/24) 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.

Other interests

Councillor Gulvin declared an interest in agenda item 7 (Contract Procedure Rules) because he is chairman of Medway Council Procurement Board and had input into the drafted Contract Procedure Rules.

492 Interim Audit Findings Report 2020-21 and Notification of Appointment of Auditor from 2023-24

This report provided an update on the ongoing audit by Grant Thornton with their Interim Audit Findings Report, presented at Appendix 1 and confirmation of auditor appointment from 2023/24.

The Head of Corporate Accounts highlighted consideration of the final report had been delayed. It was planned that the Audit Committee would review the final report in March 2023. The Head of Corporate Accounts advised the Committee the appointment of Grant Thornton LLP as external auditor for the fiscal years 2023/4 – 27/28.

Members then raised comments and questions including the following:

Delay in completing the statement of accounts – A member asked what redress the Council had with the professional valuation company that had been a cause of delay in finalising the report. The Head of Corporate Accounts stated that the Council would consider other options in undertaking those revaluations in 2022-23 and all aspects would be taken into account when making this decision.

A member commented that the professional valuation team had limited resource so it had been deemed necessary to engage a company to undertake the work, however the Council had been disappointed with the outcome.

A member asked if the delay would impact upon the completion date and whether this would result in further complexity in the accounts and an increased cost to the Council. The Engagement Lead, Grant Thornton stated that it was expected the fieldwork will have been completed by the end of January and the final report considered by the Audit Committee in March.

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The Engagement Lead, Grant Thornton added that the fieldwork for the following year would commence later in the year, and it was hoped the statement of accounts Audit would be on a regular cycle by the end of 2024. The question of additional fees would be have to be considered holistically and there remained the potential for an increase in fees in the circumstances.

A member commented that the lack of engagement by the valuer may be a contributory factor in the event the audit fee was increased, and this would represent a cost to the public purse. The Chief Operating Officer stated the performance of the professional valuer had been a concern and in the future alternatives would be considered. The Council intended to investigate whether there had been a breach of contract.

Risk of Revenue Streams – A member queried Grant Thornton’s conclusion that in relation to the risk factors in ISA240 that the risk of fraud arising from revenue recognition could be rebutted given a a third party had in recent years been under a police investigation due to allegations of fraud. The Engagement Lead, Grant Thornton explained that the audit had considered the scale of income through the group accounts which led to the view it represented a lower grade risk.

Accounting for Grant Revenues and Expenditure – Clarity was sought as to how the Council had incorrectly accounted for the Better Care Fund grant to the total of £14.6million. The Engagement Lead, Grant Thornton clarified that it represented a disclosure change and there was no suggestion the monies were unaccounted for.

Audit Fees – In response to a question regarding the additional complexity cost contained within the Audit fees the Engagement Lead, Grant Thornton stated that the fees were set out in the report but were not final. The £10,000 highlighted (page 49 refers) reflected issues relating to the 2019/20 audit which required further work by both the auditor and financial management team.

Previous Recommendations – A member asked why a significant number of recommendations from previous years remained to be determined or not updated. The Engagement Lead, Grant Thornton explained that there were no areas to be determined by the Council, work was ongoing and there were a number of actions for Grant Thornton to evaluate.

Minimum Revenue Provision – In response to a question regarding the difference in minimum revenue provision of £3.7million (page 41 refers) the Finance Business Partner – Technical Accounting explained that the Council had previously over provided in accounting for the minimum revenue payment and this had subsequently been adjusted accordingly.

Decision:

a) The Committee noted the issues raised and judgements made by the Auditor as presented at Appendix 1 to the report.

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b) The Committee noted the appointment of Grant Thornton LLP as the external auditor for the financial years 2023/24 to 2027/28.

493 Treasury Management Strategy 2023/24

This report provided Council's Treasury Management Strategy for the 2023/24 financial year. The Treasury Management Strategy incorporates within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.

The Finance Business Partner – Technical Accounting highlighted that the aim of the strategy is to keep borrowing as low as possible. This means cash levels have remained low for day-to-day requirements and consequently interest earned on cash has been limited.

The Finance Business Partner – Technical Accounting drew members' attention to proposed changes in the Strategy, ie an increase the limit of fixed rate loans from £100m to £125m for Council subsidiary companies to meet the requirements of Medway Development Company (MDC) and to increase the monetary limit for borrowing at variable rates, excluding lender option, borrow option (LOBOs) to £150 million from £100million.

Prudential and Treasury indicators had been reported on a quarterly basis and had continued to operate within the Capital Finance Requirement.

The Liability benchmark at 4.2.2 of the report (page 62 refers) showed the additional loans which the Council would be expected to require in future years.

LOBO – In response to a question from a member whether any providers had made contact regarding the potential for early redemption of loans, the Finance Business Partner - Technical Accounting reported there had been no further contact since the last meeting of the Audit Committee, however interest rates meant there was no significant incentive for such offers.

Capital Spending - A member commented that a significant rise in capital spending was expected in the next few years, however much of the funding would be time limited grants from central government. The member asked whether long term borrowing had been used for short term requirements. The Finance Business Partner - Technical Accounting explained the Council would have undertaken more short-term borrowing however liability benchmarking proved that borrowing had not taken place for longer than necessary. The Chief Operating Officer added that any borrowing over 12 months was considered long term. The capital programme required a significant level of borrowing for Medway Development Company (MDC) in the short term.

Interest Rates – In response to a question whether the strategy took into account forecasts for significant interest rate rises the Business Finance Partner - Technical Accounting stated that treasury advisors had been consulted and significant interest rises were not expected. In addition, liability benchmarking discouraged borrowing in advance of need.

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Loans to Subsidiaries - In response to a question regarding whether repayments from third parties had been received the Business Finance Partner Technical Accounting stated MDC had not yet made any repayments however, receipts meant they had borrowed less from the Council than had been expected.

Return on investment - A member commented that borrowing of £150 million is a significant sum and the Council would be liable should the return on investment be less than expected. The Chief Operating Officer stated when the MDC had been set up it had taken loans from the Council to develop housing, that had been a risk the Council had accepted. However, sales on the first development had progressed well with 75% of units sold. If circumstances changed the Council's risk could be mitigated through private renting rather than sale of properties.

A member commented that the sale of units had progressed well and asked when the repayments to the Council would be expected to be paid. The Chief Operating Officer stated that the Council could not confirm when monies would be received.

A member commented that deposits would be received when the first residents had moved in which was expected in the next month. Those deposits would offset future borrowing. The first two sales had taken place on the Chatham Wharf development and the private renting sector would be considered if necessary.

The member added that the benefit of the capital project was also part of the regeneration of Chatham and without it, private sector interest in Chatham's regeneration would not have happened.

Decision:

The Committee noted the Treasury Management Strategy 2023/24 as and recommended its approval to Full Council after consideration by Cabinet.

494 Contract Procedure Rules

This report provided a revised set of Contract Procedure Rules to replace those that currently form Chapter 4, Part 7 of Medway Council's constitution.

The Head of Category Management introduced the report and highlighted the proposed revised rules provided a more holistic, and user-friendly approach to the way the Council undertook procurement. The revised Contract Procedure Rules were considered to be more straight forward.

Members then raised comments and questions including the following:

Governance of Contracts - In response to a question regarding whether there were overarching structures or a central database to improve the governance of

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contract arrangements the Head of Category Management explained that the revised rules required the completion of a category management engagement form which brought Portfolio Holders and the relevant accountants in at a much earlier stage to ensure cross organisation collaboration and reduce silo working.

The Head of Category Management added there would be a more streamlined and tailored training programme to ensure consistency.

Oversight of Large Capital Projects – A member asked whether the rules would ensure there would be third party oversight of evaluations, prevent conflicts of interest and also whether there would be more than one evaluation for large capital projects. The Head of Category Management stated that there were several back-office mechanisms to provide assurance around evaluations..

The officer added that any project over the value of £25,000 tenders would be invited. The Council would have undertaken market engagement and held discussions with companies who may have considered bidding. The Council generated a great of interest in its procurement activity.

A member commented the revised Contract Procedure rules were a positive step forward

Capital Projects – A member commentated there were a number of Capital projects being undertaken in the coming year, some of which were contentious. The point was made that it would be helpful for Members to see all the valuations for bids submitted and that the lowest bid may not always be the best.

A member commented that in the tendering process that information would have been made available to Procurement Board which evaluated bids on many factors including price and quality and often quality was the determining factor. However, tenders were commercially sensitive.

The member added that tail end spend was not considered by the Procurement Board. However Category Management had been very successful in reducing costs and increasing expertise.

Social Value – A member commented that the Council was trying to encourage small and medium enterprises (SME) to bid and Medway Council was performing well in awarding contracts to SMEs The Head of Category Management reported the revised rules made specific reference to social value and how the Council took that into account social value to enhance the local community through procurement activity. The officer added the Council had a central contract depository.

Changes in the Contract Procedure Rules – in response to what the principal changes were to the procedures other than reducing silo working and increasing emphasis on social value, the Head of Category Management stated

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the new rules brought teams together with cross organisation activity and a holistic approach to explore opportunities as an organisation.

Decision:

The Committee noted the Contract Procedure Rules, as set out in Appendix 2 to the report, and recommended their approval to Full Council after consideration by the Business Support Overview and Scrutiny Committee and Cabinet.

495 Internal Audit Update 01 September to 30 November 2022

This report provided Members with an update on the work, outputs, and performance of the Internal Audit Team for the period 01 September to 30 November 2022.

The Head of Internal Audit and Counter Fraud Shared Service reported there had been reasonable progress on the number of reviews delivered which stood at 31% with a further 17% underway. The report proposed two reviews which were no longer suitable for audit be removed from planned work.

Members then raised comments and questions including the following:

2023-24 Workload – In response to a question whether the loss of resource will affect the number of reviews which would be undertaken in 2023-24 the Head of Internal Audit and Counter Fraud Shared Service stated he hoped this would not be the case. The number of reviews undertaken was based on resources available and the service had recently appointed an apprentice with their training scheduled to begin in April.

Changes in Workplan - A member asked why the Fostering – Assessments and Reviews activity had been removed from the plan and whether this was a concern from Children and Adults Services perspective. The Head of Internal Audit and Counter Fraud Shared Service stated the service in question would be subject to an external review by Ofsted so a review by the Internal Audit Team would represent a duplication of work.

A member commented that the Internal Audit Service has undertaken reviews positively and with professionalism.

Decision:

a) The Committee noted the outputs and performance against the Internal Audit Plan for Medway for the period 1 September to 30 November 2022 as detailed at Appendix 1.

b) The Committee approved the revisions to the agreed internal audit plan for Q3-Q4.

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496 Counter Fraud Update 01 September to 30 November 2022

This report provided Members with an update on the work, outputs, and performance of the Counter Fraud Team for the period 01 September to 30 November 2022.

The Head of Internal Audit and Counter Fraud Shared Service highlighted 219 investigations had been concluded in the period with £328,199 in cashable savings. The total cashable savings for the year stood at £574,243 for the year, well ahead of the £141,000 cost of the service.

Members commented this was an excellent performance and requested congratulations be passed on to the team.

Decision:

The Committee noted the outputs and performance of the Counter Fraud Team for Medway for the period 01 September to 30 November 2022 as detailed at Appendix 1.

497 Internal Audit Charter

This report provided details of the Internal Audit Charter for Members' approval.

The Head of Internal Audit and Counter Fraud Shared Service introduced the report which had no substantial variations on the Charter approved by the Audit Committee on 4 January 2022. The structure chart had been updated to reflect changes at Medway Council.

Members then raised comments and questions including the following:

Resources - In response to a question on resources within the team the Head of Internal Audit and Counter Fraud explained that the service had recently appointed an apprentice which lasted two years and following this there were formal routes of progression which the Council could support.

Decision:

The Committee approved the Charter as set out at Appendix 1 to the report.

498 Internal Audit & Counter Fraud Strategy 2020-24 - Review of Progress 2022-23

This report provided an update on progress against the Internal Audit & Counter Fraud Strategy 2020-2024 made by the team during 2022-23 to date.

The Head of Internal Audit and Counter Fraud introduced the report and highlighted that good progress had been made across all areas save expansion of work with external partners due to lack of resource.

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Decision:

The Committee noted the progress made against the objectives set out in the Progress Update against the Internal Audit & Counter Fraud Strategy 2020-24.

Chairman

Date:

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