

Medway Council
Meeting of Audit Committee
Thursday, 16 March 2023
6.35pm to 7.19pm

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: Opara (Substitute for Tejan)

In Attendance: Steve Dickens, Democratic Services
Katey Durkin, Chief Finance Officer
James Larkin, Head of Internal Audit and Counter Fraud
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

682 Apologies for absence

There were apologies from Councillor Tejan.

683 Record of meeting

The record of the meeting held on 10 January 2023 was agreed and signed by the Chairman as correct.

684 Urgent matters by reason of special circumstances

There were none.

685 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 5 (Statement Of Accounts 2020/21, External Audit Findings Report 2020/21 And External Audit Sectoral

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Update) 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

There were none.

686 Statement of Accounts 2020/21, External Audit Findings Report 2020/21 and External Audit Sectoral Update

This report presented the Statement of Accounts 2020/21 for Medway Council, the Audit Findings Report 2020/21 from Grant Thornton and a Sectoral Update from the Auditors.

The Chief Operating Officer introduced the report and the Engagement Lead, Grant Thornton provided further information to the Committee.

The Engagement Lead, Grant Thornton highlighted that the report was an update on the report considered by the Committee in January 2023 and new text had been underlined for ease of reference. The final issues to be resolved were presented at page 23, however, the substantial portion of the work had been completed.

The Engagement Lead, Grant Thornton noted the adjustments which had been made (page 56 refers), the errors which were unadjusted (page 59 refers) and those areas which were carried over from 2019-20 (page 60 refers). It was the opinion of the auditors that none of those matters were material or would impact on the outcome of the audit with one caveat. Further work was required on the area of property, plant and equipment to test the inputs, adjustments and judgements of the expert valuer to ensure the valuations in the accounts correlated with the auditors understanding and market intelligence.

Council properties had been valued using the beacon methodology. This method assigned the 3,000 council properties to 198 representative properties. The valuer had reviewed properties from 118 of those of beacons to undertake the valuation. The audit had reviewed 30 beacons to test the valuer's methodology and were unable to replicate the valuer's conclusions. Grant Thornton had not judged the valuation to be wrong but with over 3,000 properties at a total value of £156million a small difference in valuation had the potential to have a material impact and further work had been required.

Members then raised comments and questions including the following:

Property Valuation - A Member commented that the differences in rights of tenants between public and private sector was something which needed to be considered in the valuation of properties, however the audit contained a

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significant level of detail and he was reassured that auditors stated any anomalies were not material.

The Chief Operating Officer expressed his confidence that there would be no need to restate the values, he explained that the valuations were undertaken by a well-respected professional firm of valuers. The only issue was that they had not yet demonstrated to the auditor the basis of their valuations.

Value For Money - A Member commented that value for money being considered a significant weakness of the Council was caused by the inadequate judgement by Ofsted with respect to Children Services (page 24 refers). Officers put a great deal of effort in making the best use of resources and it was felt that the reason for the decision of significant weakness could have been clearer in the report.

The Engagement Lead, Grant Thornton explained that page 24 of the report was a summarised position, and the position was clearer in the main report which had been presented to the Audit Committee in October 2022.

Follow up of prior year recommendations - In response to a question about why recommendations from 2019-20 have not been completed the Head of Corporate Accounts stated that this was a timing issue. By the time the 2019-20 audit was completed in October 2022 and the recommendations reported the Statements of Accounts for 2020-21 had been completed and it was part way through the 2021-22 financial year. Officers had worked to ensure that those issues were resolved and would not be repeated in the future.

Captions – A Member commented that a number of pictures and captions used were out of date. The Head of Corporate Accounts explained that timing on completing the Statement of Accounts had meant there was limited availability to review those pictures with the communications team and undertook to ensure the pictures and captions were updated.

Decision

- a) The Committee noted the issues raised and judgements made by the Auditor as presented at Appendix 1 to the report.
- b) The Committee agreed the Management Letter of Representation presented at Appendix F within the Audit Findings Report, itself presented at Appendix 1 to the report and noted that the Chief Operating Officer will sign this letter on behalf of the Council at the conclusion of the audit.
- c) The Committee approved the Statement of Accounts 2020/21 as presented at Appendix 2 the report.
- d) The Committee noted the update report presented at Appendix 3 to the report.

687 Risk Strategy Annual Review

The report presented the annual review of the Risk Strategy in accordance with the Council's Risk Management Strategy.

The Chief Operating Officer outlined the proposed amendments to the strategy for 2023-204 which were intended to clarify what was expected of managers and simplify the evaluation of risk as follows:

- The Strategic Risk Management Group (SRMG) would be disbanded, responsibility for updating the strategic risk register would be held by CMT.
- The Strategy more clearly distinguished between live risks which were actively managed and managed risks which were mitigated to target level but were too significant to be de-escalated.
- The report clarified definitions for what would constitute catastrophic, major and minor impacts for the different types of risk.
- Increased emphasis would be placed on the management of risk at different levels to ensure risks would be escalated or de-escalated appropriately.
- The report provided a simplified 4x4 risk matrix together with scoring criteria which enabled more accurate and informed risk evaluation.
- There would be a revised tolerance level to ensure CMT and members were focused the most severe risks to the Council
- Greater clarity would be provided over roles and responsibility in relation to risk management.

Decision

The Committee considered the Risk Strategy 2023-24 set out in Appendix 1 to the report.

688 Internal Audit Update 01 December 2022 to 31 January 2023

This report provided Members with an update on the work, outputs, and performance of the Internal Audit Team for the period 01 December 2022 to 31 January 2023.

The Head of Internal Audit and Counter Fraud Shared Service reported there had been positive progress on the number of reviews delivered which stood at 48% on 31 January 2023 with a further 27% underway. The latest available figures were 67% of reviews delivered and 24% underway as of 17 March 2023. The report proposed the removal of one review related to smart parking which had more limited areas of control than had been initially anticipated and accounted for lost resource within the team.

Members then raised comments and questions including the following:

Tree Service – A Member queried whether a review of every tree covered by a protection order (p347 refers) would constitute value for money, the member highlighted there had been delays within the service of over 12 months. The

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Head of Internal Audit and Counter Fraud Shared Service explained that following such a review, the number of trees covered by such orders and consequently the resources required may be reduced. The service were looking at potential costs and would ask for the action to be quashed if it was determined that it was not a cost effective action.

Decision

- a) The Committee noted the outputs and performance against the Internal Audit Plan for Medway for the period 01 December 2022 to 31 January 2023 as detailed at Appendix 1.
- b) The Committee approved the revision to the agreed internal audit plan for Q3-Q4 detailed in section 7 of Appendix 1.
- c) The Committee approved the revised implementation dates requested by services as detailed in section 8 of Appendix 1.

689 Counter Fraud Update 01 December 2022 to 31 January 2023

This report provided Members with an update on the work, outputs, and performance of the Counter Fraud Team for the period 01 December 2022 to 31 January 2023.

The Head of Internal Audit and Counter Fraud Shared Service reported that savings resulting from investigative activity during the reporting period totalled £29,699 in the period, which meant a total saving in the financial year of £603,542 year to date.

Members then raised comments and questions including the following:

Corporate Working Groups – In response to a Member query why the service had not participated in any working groups this year, the Head of Internal Audit and Counter Fraud Shared Service explained the service made itself available to take part in any working groups but had not been requested to join any such groups this year.

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 December 2022 to 31 January 2023 as detailed at Appendix 1.

690 Internal Audit Quality Assurance and Improvement Programme

This report presented for approval the Internal Audit Quality Assurance & Improvement Programme (QAIP) for 2023-24.

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The Head of Internal Audit and Counter Fraud Shared Service highlighted the proposed changes to the Quality Assurance and Improvement Programme. Minor changes to wording had been proposed to reflect team operations and some changes to performance measures to ensure members continued to receive the most relevant information.

Members then raised comments and questions including the following:

Performance Targets - In response to a Member comment that a performance target of 65% of staff be qualified was an arbitrary figure and targets would be better focused on outputs, the Head of Internal Audit and Counter Fraud Shared Service agreed but added that the QAIP was designed to show continual improvements in the internal audit service, which included staff with qualifications but the target figure had been removed as it was beyond the team's control.

Decision

The Committee approved the Internal Audit Quality Assurance & Improvement Programme presented at Appendix 2 for use in 2023-24.

691 Internal Audit Plan (Q1-Q2) 2023-24

This report presented for approval the Internal Audit Plan (Q1-Q2) 2023-24.

The Head of Internal Audit and Counter Fraud Shared Service introduced the report, the Audit Plan had been drafted for the full year based upon predicted resources and the plan for the first two quarters presented for approval. A review of the plan would be undertaken in July and presented to the Committee in September.

Decision

The Committee approved the Internal Audit Plan (Q1-Q2) 2023-24 presented at Appendix 1.

692 Counter Fraud Plan 2023-24

This report presented for approval the Counter Fraud Plan for 2023-24.

The Head of Internal Audit and Counter Fraud Shared Service highlighted the work planned in 2023-204. Performance information available in the plan had been expanded to provide members with further information on outcomes of investigations.

Decision

The Committee approved the Counter Fraud Plan 2023-24 presented at Appendix 1.

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Chairman

Date:

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