

Medway Council
Meeting of Audit Committee
Thursday, 28 September 2023
6.30pm to 7.47pm

Record of the meeting

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

Present: Councillors: Browne (Chairperson), Bowen (Vice-Chairperson),
Gulvin, Hackwell and Nestorov

In Attendance: Steve Dickens, Democratic Services Officer
Bhupinder Gill, Assistant Director, Legal and Governance
James Larkin, Head of Internal Audit and Counter Fraud
Jonathan Lloyd, Finance Business Partner - Technical
Accounting
Andy McNally-Johnson, Head of Corporate Accounts
Phil Watts, Chief Operating Officer

269 Apologies for absence

There were none.

270 Record of meeting

The record of the meeting held on 1 August 2023 was agreed and signed by the Chairperson as correct.

271 Urgent matters by reason of special circumstances

There were none.

272 Disclosable Pecuniary Interests and Other Significant Interests

Disclosable pecuniary interests

There were none.

Other significant interests (OSIs)

There were none.

Other interests

There were none.

273 Annual Governance Statement 2022/23

The Assistant Director, Legal and Governance introduced the report which provided details of the Annual Governance Statement covering the financial year 2022/23. He highlighted the opinion of the Head of Internal Audit & Counter Fraud that Medway Council had appropriate systems of governance in place in order to achieve the Council's objectives.

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

Completion of assurance reviews – in response to a question whether the outstanding assurance reviews from 2022-23 had now been completed, the Head of Internal Audit and Counter Fraud explained that all the fieldwork had been completed and quality control work was being finalised.

Implementation of actions – a Member queried whether the performance of implementation of 88% of identified actions compared well with other authorities. The Head of Internal Audit and Counter Fraud explained that comparison with other authorities was not possible but completion of 88 actions out of 100 represented a positive performance. He added that weaknesses and recommendations were now discussed with the relevant services and actions were agreed in partnership which had improved engagement with reviews.

Decision

The Committee approved the Annual Governance Statement.

274 Whistleblowing, Anti-Bribery And Anti-Money Laundering Policies: Report on Instances September 2022 - September 2023

The Assistant Director, Legal and Governance introduced the report and highlighted there were no complaints relating to Anti Bribery and Anti-Money Laundering Policies during the period. There were eight Whistleblowing (known locally as Speak Up policy) concerns raised between September 2022 and September 2023. This represented a rise from two concerns raised last year. Three concerns were found to be unsubstantiated, one concern was a grievance matter rather than whistleblowing and in the other four instances investigations were ongoing.

He added the report provided more information as to who raised the concern and its nature without providing too much detail whilst matters were under investigation.

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

Number of Concerns – in response to a question why there had been a rise in the number of concerns raised, the Assistant Director, Legal and Governance stated that he could not provide causes for the rise in number, however, the number of concerns raised in previous years may have been unusually low. Covid-19 may have been a factor for the low numbers in previous years, but eight concerns raised for an organisation the size of Medway Council was not

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unusual. He added that Members should be reassured that officers were aware of the whistleblowing policy and the outcome of investigations undertaken.

Policy name – a Member commented that the name of the policy had previously been changed to Speak Up to make it easier for officers to raise concerns. The Assistant Director, Legal and Governance noted the policy was referred to as Speak Up locally, whilst Whistleblowing was more common nationally and undertook to refer to the policy as Speak Up to ensure consistency in future reports.

Decision

1. The Committee noted the contents of this report.
2. The Committee agreed the policy should be referred to as Speak Up in future reports.

275 Treasury Management Report Quarter 1

The Finance Business Partner – Technical Accounting introduced the report which provided an overview of treasury management activity in quarter one, 2023-24. He highlighted the current economic position which was that interest rates were thought to be near their peak and likely to stay elevated for some time.

The Council's debt maturity profile noted £54million of debt was scheduled to mature in the current financial year with an additional £100million of debt maturing in 2024/25. As a consequence, although conditions favoured short terms loans, the Finance Business Partner – Technical Accounting was reluctant to take further loans which would mature in 2024/25 and new loans recently taken out were scheduled to mature in 2026/27.

Borrowing remained below the CFR (Capital Finance Requirement) during the quarter. Following the end of the quarter, one lender exercised their option to the rate payable known as the Lender Option Borrower Option (LOBO), the Council exercised its right to repay the loan which was refinanced.

Investment performance remained in line with peer authorities. The Council was a net borrower which would restrict the cash available to invest. The majority of monies invested was held as deposits in bank or in the property funds.

Capital Values of property funds had continued to decline, those capital losses were reported as reserve movements, however, if the Council sold those investments it would be recorded as revenue so there were no plans to sell those investments.

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

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Length of loans – It was commented that new loans were of a slightly longer duration, and it had been an aim to reduce the amount of short-term borrowing. It was queried whether the Council was in a position to continue to this trend. The Finance Business Partner – Technical Accounting stated that he would prefer to have loans of an even longer term duration, however with interest rates currently high, the Council did not want to lock into very long term borrowing. The £100m loans maturing in the short term provided the Council with flexibility should it be required.

LOBO – in response to a question regarding the difference between loan redemption and refinancing, the Finance Business Partner – Technical Accounting reported the lender wanted to put up the interest rate to 6.35% and the Council paid off the loan and refinanced at around 5%.

Future interest rate risk – in response to a query regarding future interest rates and refinancing costs of £160million in loans scheduled to mature by 2026/27, the Finance Business Partner – Technical Accounting stated that advice received was that interest rates would be higher for some time so future loans would cost the Council more. Loans renewed this year had typically been around 2% higher.

Property fund investment – Members queried what the rate of return was on investment, the Finance Business Partner – Technical Accounting explained the 1% return was the dividend for the quarter. He added that the capital value had declined, though this was treated as a reserve movement, however, this was scheduled to end in March 2025.

Investment performance – in response to a query regarding what action could be taken to improve investment performance, the Finance Business Partner – Technical Accounting noted that the Council operated with very little cash on hand which limited opportunities for investment. Authorities that had more cash had more scope for investment but would require further loans so this was not advisable.

The Chief Operating Officer added that those local authorities which invested had probably borrowed more to facilitate that investment. This was contrary to CIPFA and Government guidance and a number of those authorities which had issued S114 notices had done so as a result of poor investments.

Decision

The Committee noted the treasury management report.

276 Counter Fraud Annual Report 2022-23

The Head of Internal Audit and Counter Fraud Shared Service introduced the report which detailed the performance of the service against the annual work plan for 2022-23. The Head of Internal Audit and Counter Fraud Shared Service highlighted the positive performance against targets and identified savings during the year.

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

Performance – Members congratulated the team on their hard work and success, in particular the total savings of £851,998 achieved by the team against the cost of the service of £136,321.

Sanctions – in response to a question why there had been only four criminal cases, the Head of Internal Audit and Counter Fraud Shared Service explained that while there had been 400 cases concluded, individual amounts were relatively low. When considering legal action, the Council had to consider the associated costs and whether it was in the public interest to take a case forward.

Encouraging Reporting of Fraud – in response to a question whether the Council would offer an incentive to members of the public to report fraud, the Head of Internal Audit and Counter Fraud Shared Service noted that some authorities had offered a financial incentive to report fraud but this was only paid if the information led to a successful outcome. Information was sometimes received from the public, however, the Council had not always received enough information to take action. The annoyance that someone had committed fraud was normally a better motivation to report fraud than a financial incentive.

Staff Awareness - in response to a question whether the attempt to raise staff awareness had been successful, the Head of Internal Audit and Counter Fraud Shared Service acknowledged that he had hoped for a better response to the annual staff survey. The team continued to deliver tailored training sessions to services across the Council.

Decision:

1. The Committee noted the work undertaken by the Counter Fraud team for Medway during 2022-23 in providing an effective service to the Council.
2. The Committee thanked the team for their hard work and success during 2022-23.

277 Internal Audit Annual Report 2022-23

The Head of Internal Audit and Counter Fraud Shared Service introduced the report which detailed the performance of the service against the annual work plan for 2022-23. A total of 84% of reviews had been completed in the year. This figure had now risen to 95% and it was expected that reports for all 2022-23 reviews would have been finalised by the next update to the committee in January 2024.

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

Independent Assurance – a Member noted the last independent assurance exercise was undertaken in 2018-19 by Tonbridge & Malling Borough Council

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and asked if there were plans for this to be repeated in the future. The Head of Internal Audit and Counter Fraud Shared Service explained that this related to the counter fraud function, and as he managed this service, his own internal audit team would not be seen as independent. He noted the positive external quality assessment undertaken earlier in the year on internal audit and undertook to explore with other authorities the possibility of reciprocal independent assurance for counter fraud.

Schools – in response to a question whether learning from audit reviews could be shared more widely with schools in the area the Head of Internal Audit and Counter Fraud agreed that although schools operated independently there were common themes from school audits and undertook to consider writing to headteachers to share the findings of relevant public reports.

The Chief Operating Officer circulated to Members a link to the Medway Scheme for Financing Schools, which was provided to local education authority schools and includes guidance and advice regarding financial controls that should operate in schools.

Decision:

1. The Committee noted the work undertaken by the Internal Audit team for Medway during 2022-23 in providing an effective service to the Council.
2. The Committee supported the opinion on the Council's internal control environment provided by the Head of Internal Audit & Counter Fraud Shared Service, as set out in Section 4 of Appendix 1, that Medway Council's framework of governance, risk management, and system of internal control, were sufficient and effective, and contributed to the proper, economic, efficient, and effective use of resources in achieving the council's objectives.
3. The Committee agreed to instruct officers to explore the potential for reciprocal independent assurance with colleagues in neighbouring boroughs.

278 Counter Fraud Update 01 April to 31 August 2023

The Head of Internal Audit and Counter Fraud Shared Service introduced the report, highlighting the savings from investigative activity to date were £352,095 against the annual cost of the service being £236,815.

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

Council Tax – in response to a question whether there would be scope to increase investigations related to Council Tax fraud, the Head of Internal Audit and Counter Fraud explained those investigations arose from data matching and went alongside more complex investigations. He wanted to investigate other areas where the Council spent large sums, such as Adult Social Care.

Decision:

The Committee noted the outputs and performance of the Counter Fraud Team for Medway for the period 1 April to 31 August 2023.

279 Internal Audit Update 01 April to 31 August 2023

The Head of Internal Audit and Counter Fraud Shared Service introduced the report and highlighted resources had been focused on completing work from the 2022-23 period and tasks related to the Medpay review.

He noted positive progress had been achieved with 7% of reviews completed and 20% which were underway. There had been some delay in the implementation of recommendations and the Committee were requested to agree revised dates in some circumstances.

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

Green Spaces - in response to a question whether the collection of public waste bins would be included in the green spaces review, the Head of Internal Audit explained that any items within the contract could be considered.

Housing Finance Interface – in response to a question for further information on the Housing Finance interface, the Head of Internal Audit and Counter Fraud Shared Service explained there were issues identified with automated reports. The service requested independent checks by the Audit team who undertook checks of the data cleansing and made some additional recommendations which had resulted in the service moving back to automated reporting with confidence.

Decision:

1. The Committee noted the outputs and performance against the Internal Audit Plan Q1-Q2 for Medway for the period 1 April to 31 August 2023.
2. The Committee is recommended to agree the revised implementation dates as detailed in Section 8 of Appendix 1
3. The Committee requested that waste management of public bins be included for consideration as part of the green spaces review.

280 Internal Audit Plan (Q3-Q4) 2023-24

The Head of Internal Audit and Counter Fraud Shared Service introduced the report which outlined the planned work areas for quarters three and four following a refresh of risk assessments and resources available to the team.

The plan included new work related to Adult Social Care and Information Governance, this would better support Medway Council with future work such

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as the upcoming CQC inspection. The Plan continued to be focussed on the highest areas of risk to the Council.

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

Unregulated Children's Social Care Placements - in response to a question how the Council would undertake the review of arrangements for unregulated Children's Social Care placements, the Head of Internal Audit and Counter Fraud Shared Service explained the review referred to placements which were not Ofsted approved. This occurred when providers were unable to meet the needs of the child, so a short term bespoke placement had been created by Children Services. The audit would review those arrangements to ensure they were short term only and dealt with appropriately.

Scope of Plan - in response to a question about the scope of the plan, the Head of Internal Audit and Counter Fraud Shared Service explained that the team undertook the reviews across the Council to provide annual assurance and activity was focused largely on areas of higher spend due to the council's financial position.

Decision:

The Committee approved the Internal Audit Plan (Q3-Q4) 2023-24, as set out in in Appendix 1 to the report.

Chairperson

Date:

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