

Medway Council
Meeting of Audit Committee
Monday, 15 July 2024
6.00pm to 7.38pm

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), Hackwell, Lawrence and Nestorov

In Attendance: Matt Dean, Director, Grant Thornton
Steve Dickens, Democratic Services Officer
James Larkin, Head of Internal Audit and Counter Fraud
Andy McNally-Johnson, Head of Corporate Accounts
Ibukun Oluwasegun, Audit Manager, Grant Thornton
Claire Sharman, Finance Business Partner – Technical Accounts
Phil Watts, Chief Operating Officer

145 Apologies for absence

There were none.

146 Record of meeting

The record of the meeting held on 27 March 2024 was agreed and signed by the Chairperson as correct.

147 Urgent matters by reason of special circumstances

There were none.

148 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.

149 Informing The Audit Risk Assessment 2023/24

Discussion:

The Head of Corporate Accounts introduced the report which set out the areas where auditors would be required to obtain understanding of management process when undertaking the audit of Medway Council.

The following issues were discussed:

Lothbury Fund – in response to a question whether the Lothbury Fund had been closed, the Head of Corporate Accounts confirmed that the fund had been closed and there would be a loss incurred by the Council as a result. Provision had been made in the budget to cover any loss.

Borrowing – it was commented that the Council had borrowed £20m to repair Gun Wharf following the discovery of RAAC, however, only £12m would be used to replace RAAC. A Member asked for further detail on the purpose of the other borrowing. The Chief Operating Officer stated he did not have the full details available and undertook to provide the information to Members outside of the meeting.

Monthly Revenue Budget Monitoring – A Member commented that the report indicated the Council had moved to monthly budget monitoring by Corporate Management Team (CMT) and this information was provided to Portfolio Holders. The Member asked if this could be shared more widely with Members. The Chief Operating Officer explained that additional resource had been provided to enable monthly budget monitoring by the CMT following a recommendation from CIPFA and this information was shared with Portfolio Holders. He added this monitoring was not formally reported to Cabinet meetings or Overview and Scrutiny meetings which was still reported quarterly; however, he would consider options for sharing the monthly monitoring data more widely.

It was questioned whether the audit would consider whether Members had access to the relevant financial information at an early enough stage to enable Committee's to effectively scrutinise progress. The Director, Grant Thornton stated the timeliness of the information provided to Committee would be included in the value for money analysis under governance.

Earmarked reserves – it was queried why £2.5m was drawn from ear marked reserves to supplement the housing budget yet that budget outturn was underspent by £1.5m, but Public Health drew from reserves exactly the amount required to avoid an overspend. The Chief Operating Officer explained that a combination of funds was used to support the Housing budget and an underspend was realised in the general fund to support budget pressures elsewhere. However, Public Health was funded through grants, so all monies

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had to spent on public health projects and the budget could not be underspent to ease budget pressures elsewhere.

Group Accounts – in response to a question when group accounts would be published, the Chief Operating Officer stated the accounts from Kyndi and Norse had been completed. The Council had received assurances that Medway Development Company (MDC) accounts would be completed by August.

Fees – further information was requested in respect of audit fees which had risen significantly. The Director, Grant Thornton explained that fee scales were set by the Public Sector Audit Appointments (PSAA) and it was hoped this would minimise the variation of fees. The Head of Corporate Accounts added that the rise in fees reflected the current market rate.

A Member commented that in the past Council officers had robust discussions with auditors in relation to fees and had undertaken significant work in submitting views to the PSAA for this fee cycle during the negotiation phase. The Director, Grant Thornton noted that the last two years of audits had not been completed so a substantial refund on those fees would be expected.

Fraud – it was questioned whether auditors would assess the Council's fraud prevention measures. The Director, Grant Thornton explained it would be considered with the anti-fraud workplan which was part of the governance, timeliness and quality of information, however, fraud may not be material from an accounts perspective rather than the taxpayer perspective.

Valuation of assets – it was questioned how often assets were valued, the Head of Corporate Accounts explained that CIPFA practice was to reevaluate the value of all assets every five years, the Council therefore assessed at least 20% of assts each year but valued some items, such as Council housing stock every year. He added that the Council would consider any changes which may affect the value of the asset, for example, last year there had been a change in the value of Council car parks, so the Council valued all car parks as a result.

Decision:

- a) The Committee approved the management responses provided are consistent with its understanding and made further comments at the meeting.
- b) The Committee requested The Chief Operating Officer to give consideration to how monthly CMT budget monitoring reports might be shared with a wider group of Members than Portfolio Holders.

150 Draft Audit Plan for the Year Ending 31 March 2024

Discussion:

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The Head of Corporate Accounts introduced the report which detailed the external auditor's assessment of risks and materiality, it also included information in relation to audit fees.

The following issues were discussed:

Cybersecurity – in response to a question whether the risk to the Council's cybersecurity from the Council's key suppliers would be assessed, the Director, Grant Thornton explained that the focus of the assessment would be on the Council's cybersecurity position. If there was a particular concern amongst the Council's suppliers it could be considered, however, it needed to be a proportionate assessment.

The Chief Operating Officer commented that cybersecurity was a significant issue on the Council's risk register, however, it may be an area which could be considered by the Internal Audit Team.

IFRS 16 Leases – Further information was requested relating to standard IFRS 16 Leases. The Head of Corporate Accounts explained the IFRS 16 leases was a new financial reporting standard which changed the way leased items such as equipment was reported. Hired equipment would now be shown on the balance sheets and the Council would need to discuss arrangements with leasing companies.

Audit Backlog – Further information was requested regarding how the audit backlog would be dealt with. The Director, Grant Thornton explained that the recent general election had delayed the legislation required to put in place a backstop for audits to be completed by September 2024. It was expected that the backstop to complete outstanding audits would be January 2025 for previous years and May 2025 for the 2023-2024 audit, though this had not been confirmed.

The Director, Grant Thornton added that this would create significant additional work for audits of up to 70%, and that it would have an impact of timescales and fees.

Decision:

The Committee noted the Draft Audit Plan for 2023/24.

151 Treasury Management Outturn Annual Report 2023-2024

Discussion:

The Head of Corporate Accounts introduced the report. The purpose of Treasury Management was manage to the Council's cash flow and assist the funding of the capital programme. The report summarised the Treasury Management activities for 2023-2024 and compliance with indicators set out in the Treasury Management Strategy.

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The Head of Corporate Accounts noted that borrowing had not exceeded the Capital Finance Requirement (CFR). This demonstrated that borrowing had only taken place to fund capital expenditure. Borrowing stood at £464m at the end of 2023-2024 significantly below the operational boundary of £644m.

The Council's debt maturity profile showed the Council continued to borrow primarily for the short term on the advice of the Council's treasury management advisors. Interest rates were expected to fall in the near future.

Investment performance remained in line with expectations and benchmarking authorities. Property funds had fallen in value from an initial investment of £23m, in 2017 to a value of £19.9m as of 31 March 2024. However, those funds continued to generate income of around £900,000 a year which was credited to the revenue account. The Council continued to adopt a risk averse approach to investment and kept borrowing to a minimum.

The Lothbury property fund had ceased in May 2024 and the Council expected to realise a loss of around £1.4m. Provision had been made in the 2023-2024 accounts to cover those losses.

The following issues were discussed:

Capital Spend - in response to a question why the spend on capital projects was lower than envisioned in the treasury strategy, the Head of Corporate Accounts explained that at the time of publication the strategy was an estimate, however, all of the expected spending had not taken place in the year. The Chief Operating Officer added there had been some slippage in works taking place on projects such as the Brook Theatre and Innovation Park Medway. Those projects remained part of the programme, so the monies would be spent in future years rather than there being an underspend.

Treasury advisors – in response to a question whether formal meetings were held with treasury advisors to review the debt maturity profile, the Head of Corporate Accounts stated that he held regular monthly meetings with advisors.

Investment returns - a Member commented that the return on investment appeared to have improved against benchmarking authorities, he asked whether this was a result of improved performance by the Council or weaker performance elsewhere. The Chief Operating Officer explained that investment returns on the Council's modest cash balances remained within the expected range for the level of risk associated with these investments.

CFR – It was asked whether there were any concerns that the Council may exceed the CFR limit following the additional borrowing the Council had undertaken. The Chief Operating Officer explained that the level of borrowing would ordinarily be closer to the CFR limit, so it was positive that the Council borrowing was below this. He added that he would expect the level of borrowing to be closer to the CFR this financial year with additional borrowing planned for revenue purposes, however, he was not concerned by the current situation.

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Property investment – A Member expressed concern that the Medway Development Company (MDC) had moved towards a buy to rent strategy rather than buy to sell. It was asked whether the Council held too great a proportion of its investment in property. The Chief Operating Officer explained the Council was risk adverse in its investment strategy, property was the only significant investment made, but MDC had been created to develop sites that would otherwise not be developed.

He added that all investors had been affected by global events, however, the Garrison Point site had made a profit. Chatham Waterfront had proved more challenging which was why more units were under consideration for buy to rent rather than sell, however, as the market changed, MDC would respond accordingly.

Decision:

The Committee noted the treasury management outturn annual report.

152 Internal Audit and Counter Fraud Annual Surveys 2024

Discussion:

The Head of Internal Audit & Counter Fraud Shared Service introduced the report, which was discussed in two parts, the audit annual survey was considered first. The Head of Internal Audit & Counter Fraud Shared Service noted that responses received indicated a good understanding of the role of internal audit, however 40% of respondents had not read the Internal Audit Charter. A number of compliments on the work of the service had been received and there had been a limited number of negative responses. Overall, the survey indicated an improved satisfaction with the services provided by the team.

The survey had been sent to all Directors, Assistant Directors, Service Managers and Members and received 16 responses; this represented a fall in the response rate to the survey. The team was considering ways of improving the response rate and internal audit had been added to the agenda for managers training to improve awareness of the team.

The following issues were discussed:

Response rate – The Committee expressed disappointment at the low response rate, the Head of Internal; Audit & Counter Fraud Shared Service acknowledged the poor response which was around 10% of those that received the survey. The survey was undertaken in April during a busy time for the Council which may have influenced the response rate. The Chairperson stated she had written to Directors regarding the response rate which she felt did a disservice to the excellent work of the team.

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The Chief Operating Officer agreed and undertook to consider ways in which the response rate could be improved in the next year.

The Head of Internal Audit and Counter Fraud Shared Service then introduced the Counter Fraud annual survey results. The survey had been available to all staff, however as with the audit survey there had been a fall in the response rate. There was, amongst staff, a lack of awareness of the fraud team and this was reflected in some of the responses received. Staff which had undertaken the fraud training reported they benefited from it.

The following issues were discussed:

Response Rate - Members expressed disappointment at the response rate and considered way in which it may be improved. The Head of Internal Audit & Counter Fraud Shared Service explained that the survey was on the intranet this year, in previous years it had been emailed to staff and this may account for some of the fall in response.

The Chief Operating Officer agreed that response rates could be improved and undertook to consider ways in which this may be improved.

Decision:

- a) The Committee noted the results of the Internal Audit & Counter Fraud satisfaction surveys.
- b) The Committee requested the Chief Operating Officer consider ways in which response rates to the Internal Audit and Counter Fraud surveys may be improved in future years.

153 National Fraud Initiative Exercise - Annual Update

Discussion:

The Head of Internal Audit & Counter Fraud Shared Service introduced the report which detailed the significant progress which had been made in the national data matching exercises in Medway. The 2022-2023 was almost completed and the 2023-2024 exercises were up to date.

The following issues were discussed:

Blue Badges – in response to a question how much fraudulent use of blue badges had been identified and how much related to badges no longer required not being returned, the Head of Internal Audit & Counter Fraud Shared Service explained the savings of £500,000 were notional, the majority of cases were blue badges which had not been returned following the death of the badge holder rather than fraudulent use. However, there were some examples of fraudulent use.

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Salary Overpayments – A Member commented that with the development of Medway 2.0 digital services, he hoped the matching could be undertaken in real time. It was queried whether overpayments to staff who left the Council was an issue and whether monies were recovered?

The Chief Operating Officer replied that he did not have that information to hand and undertook to provide data to the Committee outside of the meeting.

Decision:

- a) The Committee noted the report.
- b) The Committee requested the Chief Operating Officer to provide data on overpayments to staff who leave the Council and success in recovering those monies.

154 Audit Committee - Review of Terms of Reference

The Committee agreed to defer consideration of the item until the next scheduled meeting of the Committee on 26 September 2024.

155 Chairperson's Annual Report 2023/24

The Committee agreed to defer consideration of the item until the next scheduled meeting of the Committee on 26 September 2024.

Chairperson

Date:

Steve Dickens, Democratic Services Officer

Telephone: 01634 332051

Email: democratic.services@medway.gov.uk