

Medway Council
Meeting of Audit Committee
Thursday, 26 September 2024
6.31pm to 8.21pm

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), Lawrence and Nestorov
- Substitutes:** Councillors:
Tejan (Substitute for Hackwell)
- In Attendance:** Laura Caiels, The Assistant Head of Legal Services - Place Steve Dickens, Democratic Services Officer
James Larkin, Head of Internal Audit and Counter Fraud
Andy McNally-Johnson, Head of Corporate Accounts
Phil Watts, Chief Operating Officer

298 Apologies for absence

An apology for absence was received from Councillor Hackwell.

299 Record of meeting

The record of the meeting held on 15 July 2024 was agreed by the Committee and signed by the Chairperson as correct.

300 Urgent matters by reason of special circumstances

There were none.

301 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.

302 Annual Governance Statement 2023-24

Discussion:

The Assistant Head of Legal Services - Place, introduced the report, she explained there were no corporate governance concerns identified in the report and during the year the Chartered Institute of Public Finance and Accountancy (CIPFA) had completed a review of the Council's corporate governance and had found no weaknesses. The Head of Internal Audit and Counter Fraud confirmed there were no concerns in relation to governance.

During the year CIPFA had issued new guidance with respect to the duty to provide best value, the guidance postdated the 2023-2024 reporting period, however it was included where relevant.

Decision:

The Committee approved the Annual Governance Statement.

303 Speak Up, Anti-Bribery, Anti-Money Laundering and Regulation of Investigatory Powers (RIPA) Policies: Report on Instances September 2023 - September 2024

Discussion:

The Assistant Head of Legal Services - Place introduced the report, she reported there had been no concerns raised in relation to any of the Speak Up, Anti-Bribery, Anti-Money Laundering and Regulation of Investigatory Powers (RIPA) Policies.

The following issues were discussed:

Number of Concerns raised – Members welcomed the lack of concerns raised under the policies, following a request for further information it was confirmed there had been no change in how the policies were applied or in personal applying the policy.

Staff Awareness and Training - in response to a question about what training was available to staff, the Assistant Head of Legal Services Place explained that the policies were provided to staff when they joined the Council. The Chief Operating Officer added consideration could be given to reminding staff of policies and process that were in place regarding the policies.

Investigations – in response to a question requesting further information about how investigations are undertaken, the Head of Internal Audit and Counter Fraud explained his team undertook independent investigations on behalf of the Council and reached conclusions on the balance of probabilities.

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A Member asked whether there were concerns raised informally which did not progress to investigations or were dealt with by other means. The Head of Internal Audit and Counter Fraud explained that some concerns raised as whistleblowing related to matters that needed to be investigated under other policies, such as the disciplinary policy.

Benchmarking – it was asked if future reports could include benchmarking data with authorities of similar size to provide additional assurance. The Chief Operating Officer undertook to consider this with colleagues.

Decision:

- a) The Committee noted the contents of this report.
- b) The Committee requested consideration of benchmarking information with authorities of similar size be considered for inclusion in future reports.

304 Treasury Management Report 2024/25: Quarter 1

Discussion:

The Head of Corporate Accounts introduced the report and highlighted treasury performance for quarter one. The Council's treasury advisors continued to recommend against long term borrowing as it was anticipated that interest rates would fall over the next two to three years.

Short-term borrowing briefly breached the approved limit of £150m set out in the treasury management strategy during the quarter. This was quickly rectified, and the Council was reviewing opportunities for longer term borrowing. The most recent loans the Council had taken out would mature in 2026/27 and 2027/28 respectively so longer-term borrowing was in place.

During the quarter, one lender had exercised their right to change interest rates and as a consequence the Council repaid the loan at the current rate. This had been funded through new lending.

The Head of Corporate Accounts added that there had been a rise in borrowing in the quarter due to the additional capital spending approved by Council.

Property investment funds continued to provide positive dividends, the Lothbury fund had closed and losses accounted for in the last financial year and monies were being received as the remaining properties were sold.

The following issues were discussed:

Lender Option, Borrower Option (LOBO) - in response to a question whether the new refinanced loan was at a higher rate than had been payable for the previous loan, the Chief Operating Officer confirmed that the repaid loan had been taken out at a rate of 4.32%. The Council had been quoted 5.62% for the

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revised terms and had refinanced via the PWLB at a similar rate, although over a shorter term.

The Chief Operating Officer added that interest rates were coming down from a high for loans taken out in the last two years, so refinancing loans over the next two years may be a net benefit to the Council.

Capital Programme – it was asked whether the additional cost of the Capital programme on the revenue budget was a risk to the Council in its current financial situation. The Chief Operating Officer stated that the Capital Programme remained under review, some work had been paused and officers were cognisant that when borrowing took place it affected the revenue account.

Medway Development Company (MDC) - in response to a question whether additional housing supply in response to government targets would affect the returns provided by MDC, the Chief Operating Officer explained that the strategy of moving towards more rental accommodation was a response to the current market situation. When the market improved the position could be reconsidered and this was a positive for the long term profitability of MDC.

Investment – in response to a question whether the returns received from property funds would be reinvested, the Chief Operating Officer explained the Council had limited investments and the strategy was to focus on lowering debt rather than investing.

Debt Collection – in response to a question how the Council had performed in collecting monies owed to it, the Chief Operating Officer stated that the Council was performing well and there were indications a surplus may be achieved against budget expectations following the additional investment in the service. The Chief Operating Officer added he was aware that there was an ongoing cost of living crisis, and the Council made sufficient provision for those unable to pay debt.

Decision:

The Committee noted the treasury management report.

305 Internal Audit Annual Report 2023-24

Discussion:

The Head of Internal Audit and Counter Fraud introduced the report. A total of 85% of reviews had been completed in the year and 80% of all identified actions had been completed.

The Head of Internal Audit and Counter Fraud reported in his opinion that during the year ended 31 March 2024, Medway Council's framework of governance, risk management, and system of internal control, were adequate, and contributed to the proper, economic, efficient, and effective use of resources in achieving the council's objectives.

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The following issues were discussed:

Resources - in response to a question whether the team was adequately resourced, the Head of Internal Audit and Counter Fraud stated that audit was adequately resourced and in line with other similar sized authorities.

Performance Measures - it was asked whether the target of £5,000 for the average cost of a review (Quality Assurance and Improvement Programme (QAIP) IA6 Average Cost per agreed assurance review, page 92 of the pack refers) was realistic for the future. The Head of Internal Audit and Counter Fraud agreed this would need to be reviewed in the future, however, the QAIP had been agreed in January 2024 and did not take account of the pay increase agreed by Council in February 2024.

It was asked whether results from previous years QAIP could be included for comparison. The Head of Internal Audit stated that this information could be included however, some performance measures do change as the QAIP is reviewed and updated annually, so direct comparison might be difficult in some areas.

Assurance Reviews – in response to a question how the team were able to review technical issues such as quality of roadworks, the Head of Internal Audit and Counter Fraud explained that the role of the review was to ensure that the proper controls were in place. Consequently, the review would not consider the quality of work undertaken, but rather that processes and controls were in place to ensure that work was undertaken.

Delay in action plans - the delay in completing actions was noted and it was asked at what stage those would be considered by the Committee. The Head of Internal Audit and Counter Fraud stated that bringing all incomplete actions to Committee would be impractical, however, all finalised audit reviews were sent to the Chief Executive, relevant director, assistant director and Portfolio Holder. In addition, actions were reviewed through CMT and DMT prior to their scheduled competition date and actions which were more than 6 months overdue were reviewed by the Audit Committee.

Decision:

- a) The Committee noted the work undertaken by the Internal Audit team for Medway during 2023-24 in providing an effective service to the Council.
- b) The Committee supported the opinion on the Council's internal control environment provided by the Head of Internal Audit and 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 adequate, and contributed to the proper, economic, efficient, and effective use of resources in achieving the council's objectives.

306 Internal Audit Update 01 April to 31 August 2024

Discussion:

The Head of Internal Audit and Counter Fraud Shared Service introduced the report. Work had focused on outstanding reports from 2023-2024 with nine reviews being concluded and a further seven having all fieldwork completed during the period. 17% of work of the Q1-Q2 Workplan was underway. The work of the team was impacted by the loss of resources due to sickness and one officer leaving the service.

Members were asked to consider proposals to defer two reviews and the removal of a further review from the plan as set out in the report at appendix 1 to the report.

The following issues were discussed:

MDC – it was commented that the MDC represented a significant financial risk to the Council and asked for further information regarding its own audit procedures. The Chief Operating Officer explained that MDC had its own accounts and was subject to external audit, he acknowledged that the accounts had been delayed.

Resources – further information was requested regarding the resource issues. The Head of Internal Audit and Counter Fraud explained that a member of the Counter Fraud team was covering some audit work until the end of the financial year, however it was not sustainable in the long term and recruitment options were under consideration. It was his understanding that other authorities had struggled to recruit qualified auditors, and he wanted to avoid the use of expensive short term contractors. The Council had previously successfully used apprenticeships to upskill staff, and this was a possibility for the future.

Decision:

- a) The Committee noted the outputs and performance against the Internal Audit Plan Q1-Q2 for Medway for the period 1 April to 31 August 2024 as detailed at Appendix 1 to the report.
- b) The Committee agreed the revised implementation dates as detailed in Section 8 of Appendix 1 to the report.

307 Internal Audit Plan (Q3-Q4) 2024-25

Discussion:

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

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The Head of Internal Audit and Counter Fraud told the Committee that there had been a reduction in resources available due to the resignation of a staff member and some staff sickness. The plan had been amended to reflect this and continued to focus on areas of higher risk to the Council.

Members noted the plan would review Treasury Management and the additional assurance that would be provided through review.

Decision:

The Committee approved the Internal Audit Plan (Q3-Q4) 2024-25 presented at Appendix 1 to the report.

308 Counter Fraud Annual Report 2023-24

Discussion:

The Head of Internal Audit and Counter Fraud introduced the report which highlighted the performance of the service against the annual work plan for 2023-2024. The report included 11 key performance indicators which showed positive performance in all areas during the year. The savings to the Council resulting from investigative activity during the year totalled £382,609 compared to the cost of the resource of £229,219

The following issues were discussed:

Number of matches for potential fraud – Members welcomed the savings made by the team. In response to a question why there were significantly less matches for potential fraud from the National Fraud Initiative (NFI) in 2023-2024 compared to 2022-23, the Head of Internal Audit and Counter Fraud explained that the exercise was run nationally every two years across a wide range of potential data sets and against Council Tax annually. It was expected that there would be significantly more matches from the NFI which would require investigation for potential fraud in the coming year.

Housing Benefit Fraud – in response to a question regarding the amount of housing benefit fraud, the Head of Internal Audit and Counter Fraud commented this was now undertaken by central government.

It was questioned whether any work had taken place in relation to sub-letting properties, the Head of Internal Audit and Counter Fraud stated that proactive work was being undertaken and the team worked closely with the Housing Team.

Digitisation opportunity – in response to a question what future plans the service had in place regarding improved use of technology the Head of Internal Audit and Counter Fraud stated that the team had been trialling software to reduce the need to manually transcribe interviews. The team were reviewing the trial to determine a future course of action.

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Decision:

The Committee noted the work undertaken by the Counter Fraud team for Medway during 2023-24 in providing an effective service to the Council.

309 Counter Fraud Update 01 April to 31 August 2024

Discussion:

The Head of Internal Audit and Counter Fraud introduced the report which was the first update for the 2024-2025 year. He highlighted savings from investigation activity up to 31 August totalled £180,549 in comparison to the total cost of the team for the financial year which was £241,934.

The Head of Internal Audit and Counter Fraud added that 86 investigations had been completed in the period and the prevented loss of £96,000 which formed part of the £180,549 total savings should actually be £102,400 due to an increase in the maximum right to buy discount for 2024-25. This unfortunately had not been factored into statistics when the report was prepared.

The following issues were discussed:

Sickness – Members welcomed the recent prosecution of a former member of staff. It was asked whether the sickness policy was being consistently applied and managers meeting with staff on long term sickness. The Head of Internal Audit and Counter Fraud stated that the risk to the Council associated with this type of fraud was not new, although home working probably increased the possibility of people believing they could get away with it. There were no identified issues in sickness monitoring or recruitment controls, this had been a case of one individual seeking to take advantage.

The Chief Operating Officer added that discussion had taken place at Corporate Management Team (CMT) regarding sickness levels which were higher than the Council wanted. In terms of home working, it required managers to adapt their ways of working when staff were unavailable through sickness.

It was noted that there was a link between high levels of sickness and capability issues and the Chief Operating Officer acknowledged that the issue was not always managed consistently well, and this was under consideration by CMT.

Decision:

The Committee noted the outputs and performance of the Counter Fraud Team for Medway for the period 1 April to 31 August 2024 as detailed at Appendix 1.

310 Audit Committee - Review of Terms of Reference

Discussion:

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The Head of Internal Audit and Counter Fraud introduced the report, he explained the terms of reference had last been reviewed in June 2023 and were based on the Position Statement on Local Government Audit Committees issued by CIPFA in 2022. There were no proposed changes to the terms of reference.

Decision:

The Committee approved the review of the Terms of Reference.

Chairperson

Date:

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