

Medway Council
Meeting of Audit Committee
Tuesday, 26 November 2024
6.32pm to 8.01pm

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: Gulvin (Substitute for Hackwell)

In Attendance: Helen Clayton, Internal Audit Manager
Steve Dickens, Democratic Services Officer
Katey Durkin, Chief Finance Officer
Andy McNally-Johnson, Head of Corporate Accounts
Ibukun Ossai, Audit Manager, Grant Thornton
Claire Sharman, Finance Business Partner – Technical Accounts
Darren Wells, Engagement Lead, Grant Thornton

449 Apologies for absence

An apology for absence was received from Councillor Hackwell.

450 Record of meeting

The record of the meeting held on 26 September was agreed and signed by the Chairperson as correct.

451 Urgent matters by reason of special circumstances

There were none.

452 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.

453 Audit Findings Report 2021-22 and 2022-23

Discussion:

The Head of Corporate Accounts introduced the report which presented the opinion of external auditors Grant Thornton for the financial statements 2021-22 and 2022-23. The Committee was asked to note the audit findings report with associated opinions and approve the letters of representation for those years.

The Engagement Lead Grant Thornton explained that the current position built upon the information provided at previous Audit Committee meetings, namely that auditors were unable to complete audits for the years 2021-22 and 2022-23 and similar backlogs was experienced by many local authorities across the country. The Government had put in place a backstop for all auditors to provide an opinion on financial statements up to and including 2022-23 by 13 December 2024. It was necessary to not complete audits of for 2021-22 and 2022-23 to reset and recover the audit position and a disclaimer position would be issued for those years.

Auditors were now able to provide the disclaimer opinion for the years 2021-22 and 2022-23 subject to the Council's agreement of letters of representation in the appendix to the report and receipt of the signed set of accounts for those years. The opinion outlined that the auditors had not undertaken sufficient work and did not hold sufficient evidence to provide an opinion on the accuracy of statements for those years. It was hoped this would be completed by 29 November. The disclaimer letter is a standard format provided by Grant Thornton to authorities.

The following issues were discussed:

Resourcing – in response to a question whether the lack of Council resources which was one of the causes of the inability to complete the audits had been addressed, the Head of Corporate Accounts confirmed that the department had undertaken rightsizing to ensure it had the required resource going forward.

The Engagement Lead, Grant Thornton added that there were several factors which had caused the national issues in completing audits. Audit standards had been raised in recent years, which required some issues to be considered in greater depth, both Grant Thornton and local authorities had initially struggled to meet those additional requirements. In addition, Grant Thornton had some staffing issues, and the Council had struggled to provide group accounts. In his view all stakeholders, the Financial Reporting Council, Grant Thornton and the Local Authority had contributed to the national problems in completing audits.

2023-2024 audit backstop - it was commented that the government's 28 February 2025 revised audit backstop date for the financial year 2023-2024,

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was significantly earlier than the initially proposed date of 31 May 2025, it was asked whether it was realistic for the Council to meet the new date. The Head of Corporate Accounts agreed was a challenging deadline, but it was a date which had been decided nationally and he was confident that it would be met.

The Chief Finance Officer added that the earlier deadline wasn't designed to be punitive, it was changed following consultation with local authorities to avoid the purdah period and local elections.

The Engagement Lead, Grant Thornton, commented that it was likely a disclaimer opinion would also be required for the 2023-24 report as it would require three to five years to fully recover the audit position. This would be the position of many local authorities, whilst some elements of assurance could be recovered quickly, some areas such as brought forward balances would be more difficult.

The Chief Finance Officer added that the auditors being unable to provide assurance was not a report that the Council's financial statements were incorrect. The Council had completed its financial statements, undertaken internal assurance process and had an experienced team. She was confident that the Council's financial statements were correct and the Council would be reassured that the same team which had previously completed statements which had received a positive audit had completed the financial statements for those years which auditors were unable to complete.

Fees – in response to a question why there was a significant rise in fees, the Engagement Lead, Grant Thornton explained that fees were determined nationally by the Public Sector Audit Appointments (PSAA) following consultation. He acknowledged there had been a significant rise in fees year on year, however, this reflected that fees were previously unsustainable and public sector fees remained low compared to those in the private sector.

Communications – it was noted that there had been turnover in the team at Grant Thornton which undertook the audit and that communications between the auditors and council were not always effective. It was asked whether a dedicated team would be in place to undertake future audits. The Engagement Lead, Grant Thornton acknowledged that changes in staff made communication more difficult, however, this was related to the general delay in the completion of audit. Audits were scheduled to take three months, where there were delays, staff would be required to complete other commitments and this exacerbated issues.

A Member asked if the Committee could receive a detailed audit plan to meet the required timescales and avoid delay. The Chief Finance Officer stated that an audit plan will be brought to the Committee for consideration.

Disclaimer Letter - a Member commented that in her opinion the disclaimer letter did not reflect the extent of the issues in the sector and identified the Council as the principle cause of delay. It was asked whether the letter was an industry standard or had each firm completed their own wording. In response,

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the Engagement Lead, Grant Thornton explained that each firm had devised their own template letter, however, it had not been Grant Thornton's intention to attribute blame for the audit outcome but to explain the causes.

Decision:

- a) The Committee noted the audit findings report 2021-22 & 2022-23 combined as detailed at Appendix a.
- b) The Committee noted the disclaimer of audit opinion due to backstop 2021-22 as per Appendix b.
- c) The Committee noted the disclaimer of audit opinion due to backstop 2022-23 as per Appendix c.
- d) The Committee approved the draft management letter of representation 2021-22 as per Appendix d.
- e) The Committee approved the draft management letter of representation 2022-23 as per Appendix e.

454 Treasury Management Strategy Mid-Year Review Report 2024/25

Discussion:

The Head of Corporate Accounts introduced the report and highlighted one update. At table 6.5 (page 51 of the agenda pack refers) the forecast interest earned in round two was shown as £11.931m, this should now read £11.959m which represented an improvement of £28,000. As a result, the total finance and interest net expenditure forecast an underspend of £1.83m rather than the reported £1.802m.

The Head of Corporate Accounts reported that the Debt Maturity Profile remained focused on short term borrowing and there was a total £79m repayable by the end of the financial year, which represented a significant sum. Treasury advisors have projected a fall in interest rates during the next year so longer-term borrowing may be more favourable in the future. This would provide the Council some opportunity to balance the debt maturity profile.

Investment returns were just under 5% for the quarter, which remained towards the lower end of expectations in comparison to other authorities. This rate of return reflected the Council's focus on lower risk investment as set out in the Treasury Strategy. There had been some concern previously regarding the valuation of property fund, however, one of the funds had recently increased in value. The progress of property funds was regularly reviewed.

In relation to fees and financing, the Head of Corporate Accounts highlighted the interest payable on fees was higher than budgeted, however, this was more than offset by higher levels of interest earned and overall, the position was a net benefit to the Council. The Council budget also benefited from a lower

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Minimum Revenue Payment than had been originally budgeted for, this was due to the lower than anticipated Capital outturn and was also a benefit to the Council's budgetary position.

The following issues were discussed:

Benchmarking Return on Investment – it was commented that Medway was towards the lower end of investment return and a Member requested further information why this was the case. The Head of Corporate Accounts acknowledged that investment returns were towards the lower end of the expectations, however, they were within expectations and reflected the Council's attitude to risk. Where other authorities had performed more strongly, it was not known the level of the risk the authorities had undertaken. Medway followed a low risk strategy with regards to investments.

Borrowing – in response to a question how the Council planned to repay loans due before the end of the financial year, the Head of Corporate Accounts explained that where the Council had the available cash flow, debt would be repaid. When this was not possible further loans would be undertaken, he added that the majority of debt which matured in the financial year would need to be financed through new borrowing.

Finance Costs – The authorised borrowing limit was discussed, the lower than expected Minimum Revenue Provision (MRP) and other factors had resulted in a £1.8m underspend in the fees and financing budget. The Chief Finance Officer explained this underspend was included in the revenue budget round two monitoring which had recently been considered by Cabinet. In addition, the fees and financing budget had been adjusted for the 2025-26 to reflect the position lower costs.

Economic projections – a Member commented that they were concerned the national economic performance may be weaker than forecast and government borrowing rates higher, he asked officers whether the projections to reduce debt through asset sales and borrowing costs took account of economic uncertainty. The Chief Finance Officer agreed that it was difficult to make projections, however the Council took advice from treasury advisors, government and the Office for Budget Responsibility and took account of the prevailing market conditions when making projections. The current draft budget for 2025-26 took account of that advice and the Council's planned Capital Programme which was a significant driver of the Council's fees and financing budget. The budget would be adjusted in line with advice whilst the draft budget is reviewed by Overview and Scrutiny Committee's prior to being considered by Council in February.

Volatility of interest rates - a member noted the volatility of the gilt markets and asked whether the loan market was similarly volatile. The Head of Corporate Accounts explained the market was updated twice a day, so rates were fixed at that point.

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Emergency Financial Support – a Member requested clarification concerning the position of Emergency Financial Support in the Council's accounts. The Head of Corporate Accounts stated that it would be considered as a capitalised loan, however the exact nature of this was to be decided. The Chief Finance Officer added the government had recently confirmed that Emergency Finance Support would not have a punitive interest rate attached which reduced the Council's repayment costs and the loan was repayable over a 20 year period.

Decision:

The Committee considered the report, noted its contents and noted that the report will also be referred to Cabinet and Full Council.

455 Global Internal Audit Standards, Application Note: Global Internal Audit Standards in the UK Public Sector and Consultation on the CIPFA Code of Practice for the Governance of Internal Audit in UK Local Government

Discussion:

The Internal Audit Manager introduced the report, she highlighted in January 2024 the Institute of Internal Auditors (IIA) published new global internal audit standards which were scheduled to come into effect in January 2025. In conjunction with this, the IIA have also introduced Topical Requirements to ensure a consistent methodology is used when undertaking audits of certain functions.

In the UK Public Sector the Relevant Internal Audit Standard Setters (RIASS) agreed to use these new global standards and have developed an application note: Global Internal Audit Standards in the UK Public Sector which contained additional interpretations and requirements which the Council will need to comply with from 1 April 2025.

The Chartered Institute for Public Finance and Accountancy (CIPFA) as the RIASS for local government, were undertaking a consultation on a planned Code of Practice for the Governance of Internal Audit in UK Local Government' to support local authorities and it was proposed that the Chief Audit Executive would provide a response on behalf of the Council.

The Internal Audit Manager added that the Internal Audit team were undertaking a self-assessment to identify and address any gaps in practice related to the new requirements set out in the global internal audit standards and application note. In addition domain three of the new standards specifically refers to Governing and the Internal Audit Function and this would provide new requirements for the Audit Committee acting as the Board.

The following issues were discussed:

Roles – in response to a request to clarify the roles outlined in the report, the Internal Audit Manager stated that the role of Chief Audit Executive was undertaken by the Head of Internal Audit and Counter Fraud at Medway

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Council, senior management referred to the Corporate Management Team (CMT) and the Audit Committee was the Board.

New standards – it was asked how closely current practice reflected the new standards. The Internal Audit Manager commented that she would be able to provide more detail once the self-assessment had been undertaken; however, the indications were that no fundamental changes in procedures or practice were required. Some administrative changes would be necessary, and training would be provided as needed.

Resourcing – in response to a question around whether additional resources would be required to comply with the new standards, the Chief Finance Officer explained that in reviewing budgets for the forthcoming year the Internal Audit Team has not requested additional resources to undertake the changes required by the new standards. In addition, the as part of Annual Governance Statement the Chief Audit Executive is required each year to confirm that he had enough resources to undertake the role and he had not indicated this would be an issue of concern.

The Internal Audit Manager added that the majority of day to day processes would remain the same and there would not be significant changes required. There would need to be a review of the of the Charter and Quality Assurance & Improvement Programme and the Internal Audit Strategy, but this would be for management rather than Internal Auditors.

Decision:

The Committee noted the information regarding the changes to the Internal Audit Standards and the associated requirements.

456 Appointment to the post of Independent Member for the Audit Committee

Discussion:

The Democratic Services Officer introduced the report, he highlighted the recruitment process which had been undertaken and the recommendation of the panel which was to approve the appointment of Anumesh Chandra to the position of Independent Member for the Audit Committee.

The following issues were discussed:

Candidate information – in response to a request for further information regarding the recommended candidate, the Chairperson explained Mr Chandra had experience working in the NHS which gave him the skills and experience relevant to the role.

Decision:

- a) The Committee approved the recommendation of the panel to appoint Anumesh Chandra to the post of Independent Member of the Audit

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Committee for a period of four years from 27 November 2024 – 26 November 2028, subject to a successful review by both parties after 12 months.

- b) The Committee noted that officers will provide a training programme to support the appointment of the Independent Member.

457 Chairperson's Annual Report 2023/24

Discussion:

The Chairperson introduced the report. She stated that she was proud to deliver the first Annual Chairperson's Report of the Audit Committee and thanked officers for their assistance. The report reflected the work of the officers and the Committee in providing assurance for the Council.

The following issues were discussed:

Members commented that the report was excellent and very informative, adding it summarised the huge range of work undertaken during the year.

Members noted the positive contribution the Counter Fraud team made to the Council. It was suggested that the report be considered by Full Council to raise awareness of the work of the Committee.

Decision:

- a) The Committee noted the Chairperson's Annual Report 2023/24.
- b) The Committee requested officers consider options for including the Annual Report on the next available Full Council agenda.

Chairperson

Date:

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