

Medway Council
Meeting of Audit Committee
Tuesday, 28 January 2025
6.30pm to 8.30pm

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 and Nestorov
- Substitutes:** Councillors: Kemp
- In Attendance:** Anumesh Chandra, Independent Member, Audit Committee
Matt Dean, Director, Grant Thornton
Steve Dickens, Democratic Services Officer
Katey Durkin, Chief Finance Officer
James Larkin, Head of Internal Audit and Counter Fraud
Andy McNally-Johnson, Head of Corporate Accounts
Ibukun Ossai, Audit Manager, Grant Thornton
Claire Sharman, Finance Business Partner – Technical Accounts
Phil Watts, Chief Operating Officer

646 Apologies for absence

An apology for absence was received from Councillor Lawrence.

647 Record of meeting

The record of the meeting held on 26 November 2024 was agreed and signed by the Chairperson as correct.

648 Urgent matters by reason of special circumstances

There were none.

649 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.

650 Internal Audit Update 1 September to 30 November 2024

Discussion:

The Head of Internal Audit and Counter Fraud introduced the report which provided an update on the work of the Internal Audit Team. There had been limited progress in the period with 9% of planned work delivered and 20% underway. This was a result of resource issues, and the Committee were asked to consider amendments to the plan for the year.

The Head of Internal Audit and Counter Fraud highlighted an error in the report, the amendment removing the audit of Housing Rent recovery should refer to Pentagon Centre Management.

The final Audit opinion may be more limited in scope due to the loss of resource and its subsequent effect on the completion of the Audit plan. However, there remained enough data available for the Head of Internal Audit and Counter Fraud to reach an opinion.

Two actions with implementation dates over six months ago remained to be completed, the action related to ICT security and access controls was scheduled to be considered by the Security and Information Governance Group (SIGG) before being implemented Council wide.

The following issues were discussed:

Completion of recommendations – it was asked whether the rate of 30% of recommendations not completed in the year was higher or lower than expected at this point in the year. The Head of Internal Audit and Counter Fraud explained the rate of actions completed fluctuated over the period, the figure represented a snapshot at the time of reporting and was not a cause for concern.

Staff leave audit – clarification was sought for the reason staff leave was proposed to be removed from the audit plan for the year and the scope of the proposed review. The Head of Internal Audit and Counter Fraud explained that the review would have focused on staff annual leave and there were changes in the system scheduled for the next financial year which would affect the controls. Therefore, it made sense to delay the audit until those new systems were in place.

Loss of resources – the Head of Internal Audit and Counter Fraud outlined the loss of resource for the year which was principally due to sickness being higher than expected and a vacancy which had arisen in the team. A secondment had

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been put in place, however, a member of the team would retire shortly, so a recruitment was scheduled to take place in February.

He added that the service planned for an average of six days sickness for the year per officer, which was based on national figures, though acknowledged, this may be out of date.

Risk Profile of audits – in response to a question regarding the risk profile of the remaining items in the current year's plan, the Head of Internal Audit and Counter Fraud stated that the risk associated with items in the plan were reviewed and updated and the items it was proposed to remove were lower risk.

Decision:

- a) The Committee noted the outputs and performance against the Internal Audit Plans for Medway for the period 1 September to 30 November 2024 as detailed at Appendix 1.
- b) The Committee approved the revisions to the agreed internal audit plans for Q1-Q2 and Q3-Q4.

651 Counter Fraud Update 1 September to 30 November 2024

Discussion:

The Head of Internal Audit and Counter Fraud introduced the report which provided the second update of the year on the work of the Counter Fraud Team. Progress had been limited due to a secondment and a vacancy in the team, however, a recruitment process had been undertaken with posts expected to be filled in March.

The team has completed 120 investigations in the period, the total cost savings for the year were £385,000 for the year to date, significantly higher than the £241,000 total annual cost of the service.

The following issues were discussed:

Delivery – a Member commented that the 13% of planned work delivered was lower than in previous years and asked what could be done to rectify the situation. The Head of Internal Audit and Counter Fraud advised that the delivery was a snapshot of a particular point in time and was the percentage of originally projected resource delivered. The team had lost resource due to the secondment and staffing vacancies so it would not deliver the original level of resources projected. In addition, as a shared service work may be more focused on Medway or Gravesham at certain points and the current levels of delivery were not a cause for concern.

Blue Badges – the Committee discussed the cancelling and return of blue badges when users had passed away, the Head of Internal Audit and Counter

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Fraud stated that it was the responsibility of the blue badges team to request the return of badges so he could not provide details of how many were returned. Badges could be cancelled without being returned, though he would need to discuss how this was enforced with the parking team.

It was asked whether the savings related to the cancellation of blue badges was realistic given their use, the Head of Internal Audit and Counter Fraud explained that the notional savings figure to the cancellation of a blue badge was provided by the Department of Transport. The Council had recently undertaken some proactive work with parking to test the misuse of blue badges and found a number of instances of fake badges, the Council was in contact with the London Borough of Greenwich who had experience in this area to look at how they dealt with enforcement and prosecution and see what could be used at Medway.

Decision:

The Committee noted the outputs and performance of the Counter Fraud Team for Medway for the period 1 September to 30 November 2024 as detailed at Appendix 1.

652 Exclusion of the press and public

Decision

The Committee decide to exclude the press and public during consideration of the following report because consideration of this matter (Fraud Risk Register) in public would disclose information falling within one or more of the descriptions of exempt information contained in Schedule 12A to the Local Government Act 1972, and, in all the circumstances of the case, the public interest in maintaining the exemption, outweighs the public interest in disclosing the information.

653 Fraud Risk Register 2024-25

Discussion:

The Head of Internal Audit and Counter Fraud introduced the report, which outlined areas of risk of fraud to the Council. The register would inform the work of the Counter Fraud team.

Members welcomed the introduction of the Fraud Risk Register and thanked the team for their work.

Decision:

The Committee reviewed the draft Fraud Risk Register for 2024-25 and endorsed the assessments undertaken by Counter Fraud.

654 Audit Findings Report 2023-24 and Interim Auditor's Annual Report 2023-24

Discussion:

The Chief Operating Officer introduced the report, he highlighted the disclaimer opinion provided by the external auditor which was the same result as in 2021-22 and 2022-23. The opinion means that auditors were unable to complete sufficient work to provide an opinion, as were due to the national issues related to external audit.

The Director, Grant Thornton, reported that the disclaimer opinion in the previous two years meant that auditors could not be sure that the opening balance of the 2023-24 financial year was correct. A decision was taken in September that it was not possible to complete the amount of work required to regain assurance for the 2023-24 audit. There was a clear plan to regain assurance for 2024-25, this would be challenging but achievable and the auditors and the Council were committed to it.

The Senior Audit Manager, Grant Thornton summarised the 2023-24 Audit Findings Report and outlined that the 2024-25 audit plan would be reported to the Committee in March.

The Director, Grant Thornton outlined the Interim Auditors Report for 2023-24 in their review of the Council's arrangements to secure Value for Money. He highlighted it was an Interim report so would be subject to revision and the auditors and Council were working in partnership to achieve this.

The overall financial stability of the Council remained a weakness and there was a key recommendation to address this. In terms of Governance there had been improvements in the accounts process in 2023-24 compared with the previous year. The Director, Grant Thornton added that if this trajectory continued into the current year the recommendation would be removed.

The following issues were discussed:

Financial Stability of the Council - a Member commented that it was disappointing that the Council's overall financial stability remained a significant weakness. The Chief Operating Officer replied that the position was accurate given the financial position of the Council, however, in his opinion the report could have provided the wider context of the CIPFA resilience review which had been undertaken and had shown the Council's unit costs were below the average of the peer group and the financial position did not represent a failure of governance.

Finance and Improvement Plan (FITP) – in response to a question regarding the recommendation that the FIT plan be shared, the Chief Finance Officer stated that progress against the plan was reported to Cabinet on a quarterly basis.

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2024-25 Audit – in response to a request for further information regarding plans for the 2024-25 audit, the Chief Finance Officer explained that the proposed budget for 2024-25 included investment in the accountancy team and additional resources to support budget monitoring. The Council's 2023-24 financial statements were published on time, so she was confident that the audit could be completed within timescale.

The Chief Operating Officer added that the auditors were unable to complete the audit of the last three years but needed to assure themselves of the opening balance for 2024-25 to prevent having to provide another disclaimer opinion. This was an issue nationally and the audit community needed to come to a common view on the way forward.

A Member stated that she was concerned that the audit had not been able to be completed, she asked whether there was a plan for the sector to agree a way forward given how many audits were affected by this. The Chief Operating Officer explained there was a consultation underway by government to seek a resolution, he had provided a response on behalf of the Council which suggested a renewed focus on spending by Council's on key services.

Value For Money – in response to a question whether the Council could be assured it provided Value for Money; the Chief Finance Officer stated that the CIPFA resilience review demonstrated that the Council provided good value for money for its services.

Sampling – a Member commented that the report highlighted there had been some issues with sampling of evidence and asked what had been put into place to reduce this for the forthcoming audit. The Head of Corporate Accounts acknowledged that there would always be some debate and discussion regarding sampling evidence, however, last year there had been some vacancies in the team which had now been filled.

It was asked whether it was more difficult to complete the necessary work due to staff not being co-located, the Head of Corporate Accounts stated that it would be easier if Council and auditors were reviewing evidence face to face, however, many sources of samples were not co-located with evidence being required from schools which were shut for the holidays etc.

Decision:

The Committee:

- a) Noted the audit findings report 2023-24 and the status of audit testing as detailed at Appendices A and B.
- b) Noted the disclaimer of audit opinion due to backstop 2023-24 as per Appendix C.
- c) Approved the draft management letter of representation 2023- 24 as per Appendix D.

d) Noted the Interim Auditor's Report for 2023-24 at Appendix E.

655 Risk Strategy Annual Review

Discussion:

The Chief Finance Officer introduced the report, minor changes were proposed to the strategy to provide clarification and were shown as tracked changes at Appendix A.

The following issues were discussed:

Escalation and tolerance – further information was requested regarding the escalation of risks, the Chief Operating Officer explained that risks which were rated B1 (Likely and catastrophic) were escalated to the next level and a further review undertaken. However, an item may be considered high risk for a service but a lower risk at Corporate Management Team. Items rated at B1 or higher by the Corporate Management Team were included on the Council's Risk Register.

Decision:

The Committee considered the 2025/26 Risk Strategy as set out in Appendix 1 to the report and submitted comments to Cabinet.

656 Treasury Management Strategy 2025-26

Discussion:

The Head of Corporate Accounts introduced the report. He highlighted that the figures in the report were based on latest budget forecasts and any changes to plans in the Capital Programme would affect the Minimum Revenue Provision (MRP) requirement.

The Council had updated its Minimum Revenue Policy which was included in Appendix A to the report in line with CIPFA guidance.

The Council continued to operate within the Capital Finance requirement (CFR). The Debt Maturity profile shows that loans to be repaid will peak over the next months and the Council continued to focus on short term borrowing whilst interest rates were high. It was anticipated that interest rates would fall in the next 12 months, which would make longer term borrowing more advantageous at that stage. When interest rate conditions were right the Council would consider taking longer term borrowing to smooth the debt maturity profile.

The following issues were discussed:

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MRP – further clarification was requested in relation to the updated MRP policy, the Chief Operating Officer explained that new guidance was in place from May 2024 that required loans to third parties which are commercial or principally to generate income be subject to MRP payments. It was the clear view of the Council that loans to its subsidiary Medway Development Company (MDC) were not commercial so would not be subject to MRP payments. External Auditors had taken a different view and discussions regarding this were ongoing, however, the Council had taken guidance from CIPFA prior to updating its MRP policy and he was confident that the policy met current requirements.

The Committee discussed the loans provided to the MDC; the Chief Operating Officer explained that the initial loans during the construction phase were at a higher rate than subsequent loans which were secured against MDC's assets and were charged at an interest rate 0.5% above what the rate of loans borrowed by the Council. The MDC loan facility had been extended to March 2028, but it was planned for the loans to be repaid to the Council in full. The weakness in the housing market had meant MDC had changed its strategy to include renting some units. There remained a number of sites the MDC could progress in the medium term.

Alternative funding sources – in response to a question regarding potential alternative sources of funding than loans the Chief Operating Officer stated the Council was exploring the sale of non-operational assets. The sale of those assets could be used instead of borrowing to fund the Capital Programme, to finance new initiatives or instead of Exceptional Financial Support (EFS). However, the disposal of assets would take some time, and the Council needed to invest resources such as recruiting surveyors and conveyancing lawyers to ensure it received the best value for those assets. He expected that receipts would begin to be received at the end of this financial year or early in the next year.

It was asked if the sale of those non-operational properties could be as transparent as possible, the Chief Operating Officer stated the property team would work with agents using a variety of methods to ensure the Council got the best value.

Exceptional Financial Support – it was asked if the table showing capital borrowing could show the EFS received from central government on a separate line, the Head of Corporate Accounts undertook to update the report prior to it being considered by Cabinet.

Debt repayment to KCC – it was asked how the proposed local government reorganisation would affect debt repayment to KCC, the Chief Operating Officer stated it would be a matter for discussion as part of the reorganisation.

Decision:

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The Committee considered the report, noted its contents, and passed comments as set out in the minutes on for consideration by the Cabinet and recommendation to Full Council for approval.

Chairperson

Date:

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