

Local Authority Trading Company Self-Assessment Validation: Medway Development Company Ltd

Final Internal Audit Report
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0 Introduction

- 0.1 Medway Development Company Ltd (MDC) is a Local Authority Trading Company (LATCo) created by Medway Council to deliver high quality residential developments which are integrated into the wider regeneration initiatives being implemented by the council.
- 0.2 MDC is responsible for establishing its own internal governance arrangements, but it is good practice for local authorities to regularly review the governance arrangements of their owned or partially owned companies to ensure their effectiveness and appropriateness.
- 0.3 Medway Council has determined that assurance will be sought over the effectiveness and appropriateness of its LATCo's governance arrangements, by asking the companies to complete a self-assessment, which is then validated by the council's Internal Audit Team.
- 0.4 MDC provided their completed self-assessment, including an Annual Assurance Statement signed by the Chair of the MDC Board, on 4 July 2025. A selection of supporting evidence documents was then gathered and used to validate the information provided in the self-assessment. The results of this validation work have been outlined below, separated according to each section of the self-assessment.

1 Company Operation

- 1.1 Draft Articles of Association and a Memorandum of Understanding were approved by the Medway Council Shareholder Board on 31 January 2024, who also recommended that MDC adopt these at their next board meeting. MDC confirmed that although in practice the organisation operates in accordance with these documents, they have not yet been formally adopted by the MDC Board. We were advised that these documents will now be presented at the MDC Board meeting scheduled on 5 December 2025 and will be submitted to Companies House by the end of the year.
- 1.2 Schedule 2 of the Memorandum of Understanding contains a Scheme of Delegation including the approval requirements and where applicable, financial limits, for 38 essential activities. Approvals are via a combination of the Medway Council Cabinet, Medway Council Shareholder Board, MDC Board and MDC Chief Executive Officer (CEO) – who in practice is the Managing Director.

2 Roles and Behaviours of Company Directors

- 2.1 We were advised that Non-Executive Directors (NEDs) appointed to the MDC Board, sign a Letter of Appointment, which includes the terms of their appointment. A review of the Letter of Appointment template found that, while information is included on subjects that link to the Nolan Principles, there is no specific reference to the need for NEDs to act in accordance with the Principles. Although, it should be noted that the validation work completed has not provided any reason to believe that the current NEDs do not act in accordance with these Principles.

- 2.2 Paragraph 15.2.3 of the Memorandum of Understanding refers to each party maintaining adequate procedures designed to prevent any conduct that would give rise to an offence under Section 7 of the Bribery Act 2010. It was noted that paragraph 1.5 (g) of the Letter of Appointment refers to compliance “with the Company’s anti-corruption and bribery policy and procedures or the Bribery Act 2010”. However, MDC confirmed that a company specific policy does not exist, and it is assumed that this is in reference to Medway Council’s policy. Medway Council in fact has two policy documents on this subject, the Counter Fraud and Corruption Strategy and the Anti-Bribery Policy, although it is not clear whether NEDs or MDC employees would be aware of these or how to access them. It was acknowledged that a policy or policies should be available.
- 2.3 MDC advised that as NEDs are non-executive and independent from day-to-day management, with no financial or personal interests in the company other than remuneration, this enables them to exercise independent judgement. Evidence was provided to show that where contentious issues are encountered, independent third-party advice is sought.
- 2.4 Conflicts of interest are covered in the Articles of Association and Letter of Appointment, and it was evidenced that the first agenda item at each MDC Board meeting is ‘Declarations of conflicts of interest’. Additionally, as part of an annual external audit, NEDs are required to complete a ‘related party questionnaire’ to declare any family or business interests, with copies of the most recently completed questionnaires, dated 31 March 2025, provided.
- 2.5 Currently, MDC do not have an approved Gifts and Hospitality Policy or Register. However, draft documents were shared, which are expected to be presented for approval at the next MDC Board meeting.

3 Board Composition, Skills and Development

- 3.1 CVs were supplied for the four NEDs currently appointed to the MDC Board which demonstrate experience in housing, development, finance, marketing, and sales, Additionally, as noted in paragraph 2.3, where additional advice is required, for example independent legal advice, this is sought as necessary.
- 3.2 Activity number four within the Scheme of Delegation identifies that appointment and removal of NEDs is to be approved by the Shareholder Board. Evidence of this process being followed is available within the minutes of the Shareholder Board meeting held on 30 May 2024, when a report was presented seeking approval to recruit a fourth NED for a term of four years. Additionally, the minutes of the Shareholder Board meeting held on 24 June 2025 demonstrate approval of extensions to the terms of the remaining three NEDs, with recommendations on this subject included in Exempt Appendix 2 – Financial Overview, of the Update on Business Plan, Financial Monitoring and Risk Registers report.
- 3.3 As per paragraph 21.1 of the Articles of Association, the number of NEDs on the MDC Board should be between five and ten. An ‘NED Recruitment Process and Skills Review’ document was provided, which is dated June 2024, and was submitted to the MDC Board on 19 December 2024. In this document it has been acknowledged that currently the MDC Board has four NEDs, and that this should be increased to five to comply with the requirements of the Shareholder. A proposed recruitment process is set out within the document, and it also includes a skills matrix that reviews the collective skills of the existing MDC Board. Section 11 identifies that, having reviewed the skills matrix, it is proposed to: *“target a new NED that is from a development background and is able to provide oversight of environmental and sustainable issues, ensuring that these considerations are a key part of the decision-making process and ensure that the company delivers sustainable projects, which have measurable outcomes”*. However, the most recent MDC Board minutes available at the time of this review, showed that only four NEDs were present. When queried with MDC, it was confirmed that recruitment of the fifth NED will commence in January 2026.
- 3.4 MDC advised that broadly, NEDs have the necessary skills in relation to their legal roles and responsibilities, but the company plans to implement further refresher training. It has been provisionally arranged for NEDs to complete refresher training between January and April 2026, depending on availability, covering the Companies Act 2006, Insolvency Act 1986, Bribery Act 2010, Modern Slavery Act 2015, Data Protection Act 2018, Health and Safety at Work etc Act 1974 and the Economic Crime and Corporate Transparency Act 2023.

- 3.5 MDC confirmed that an unformalised NED induction process is in place but advised that a structured induction pack is to be developed to capture this process; it is intended that this will include training on the above subjects for all new NEDs.
- 3.6 MDC confirmed that the Chair of the MDC Board conducted appraisals for each NED in April 2025, with minutes of these meetings available. A Chairman review was being undertaken by individual NEDs and senior management at the time of this review.

4 Role of the Board Chair

- 4.1 MDC confirmed that the Chair of the MDC Board has high-level strategic conversations with the Managing Director, which drives the board's strategy and plans. Additionally, it was confirmed that the Chair has input into board meeting agendas, for example through confirming whether an item needs to be discussed, or a report needs to be presented, at the next meeting.
- 4.2 MDC advised that the Chair of the MDC Board operates an open environment where NEDs are able to contribute to the activities of the board. It was evidenced that quarterly and interim board meetings are held (see section 5), with varied agendas, demonstrating that the Chair ensures the MDC Board is in full control of the company's activities.
- 4.3 In addition, MDC advised that the Chair of the MDC Board has introduced stricter governance protocols, to ensure delivery of high standards of integrity and propriety in company activity; three examples of this were provided:
- Appointment of an ex-accountant to the MDC Board with finance and audit experience.
 - Directive to recruit a Finance Director to bring financial management in-house and implement a financial management system.
 - Directive to appoint better quality auditors.

5 Roles and Behaviours of the Board

- 5.1 Quarterly MDC Board meetings are held to direct and supervise the company's affairs, with the minutes provided showing meetings were held in 2024 and 2025 on 15 February 2024, 17 May 2024, 13 September 2024, 19 December 2024, 15 April 2025 and 28 August 2025. It was also evidenced that interim meetings are held when necessary.
- 5.2 MDC confirmed that the MDC Board operates openly and transparently, which is demonstrated in the meeting minutes.
- 5.3 A review of the papers supplied for the MDC Board meetings discussed above, found that all had associated agendas. MDC confirmed that agendas and reports are shared ahead of each meeting.
- 5.4 Arrangements exist for a Business Plan to be prepared, which is endorsed by the MDC Board (see section 7). MDC advised that strategic objectives, corporate values and Key Performance Indicators (KPIs) are set within the Business Plan, to promote the success of the company and ensure obligations to the Shareholder and others are met, which was evident within the Business Plans reviewed.
- 5.5 A review of MDC Board minutes and papers found that meetings regularly include agenda items such as 'Finance', 'People' and 'Customer Satisfaction', to help promote the effective and efficient use of staff and resources and to ensure sufficient resources are available to meet objectives. Additionally, it was confirmed that the MDC Board considers significant company matters, with a Managing Director's report presented at each meeting covering 'Key Strategic Business Issues' and 'Key Shareholder Issues', as well as regular agenda items such as, 'Health & Safety', 'Development Updates', 'Sales and Marketing' and 'Risks and Controls'.
- 5.6 Activity number 24 within the Scheme of Delegation identifies that statutory accounts are to be approved by the MDC Board. Evidence of this process being followed is available within the minutes of the MDC Board

meeting held on 13 September 2024, when the company's annual report & financial statements were presented to and approved by the board. Additionally, the MDC Board minutes and papers show that within the 'Finance' item on each agenda, financial monitoring reports and updates are regularly reviewed and discussed, as well as other key financial issues, including regular updates on the progress of annual external audits and submission of audited accounts to Companies House.

- 5.7 There are various HR policies and procedures documents in place, consistent with the company's values, however, as discussed in paragraph 2.5, the Gifts & Hospitality Policy is currently in draft form, and as discussed in paragraph 10.6, Code of Conduct and Whistleblowing Policies are to be developed.

6 Role of Executive and Non-Executive Directors

- 6.1 As discussed in paragraph 5.5, a Managing Director's report is presented at each MDC Board meeting covering 'Key Strategic Business Issues' and 'Key Shareholder Issues'. A review of MDC Board minutes and papers found that the Managing Director was present at all board meetings held in 2024 and 2025.
- 6.2 In addition, MDC Board minutes and papers show that NEDs challenge and contribute to the development of the company's strategy, scrutinise performance, and satisfy themselves on the accuracy of financial information and robustness of financial controls and risk management, through endorsement of the Business Plan and consideration of reports and information provided under the regular agenda items noted in paragraph 5.5.
- 6.3 MDC advised that one of the NEDs is qualified as a chartered accountant, which was an intentional appointment to strengthen the financial overview of the company.
- 6.4 Activity number 28 within the Scheme of Delegation identifies that the appointment and dismissal of MDC's Managing Director is to be approved by the Shareholder Board, with approval of the appointment and dismissal of any other officers, sitting with the Managing Director or their appointee. MDC advised that, in practice, senior management appointments are also discussed with the MDC Board, with the MDC Board also approving pay review recommendations, which is demonstrated within the minutes of the MDC Board meeting held on 11 December 2023.

7 Business Planning

- 7.1 Section 10 of the Memorandum of Understanding requires that the MDC Board prepares a Business Plan, which is reviewed no less than each financial year, and activity number 11 within the Scheme of Delegation identifies that adoption or amendment of the Business Plan is to be approved by the Shareholder Board.
- 7.2 A Business Plan covering 2024-30 was agreed at the MDC Board meeting held on 15 February 2024, with formal approval given at the following meeting held on 17 May 2024. The 2024-30 Business Plan was approved by the Shareholder Board on 30 May 2024, with the minutes of subsequent Shareholder Board meetings showing that a 'Progress of Business Plan & KPIs' report is presented at each meeting.
- 7.3 MDC confirmed that a business planning process is undertaken at least annually. A draft 2025-35 Business Plan was presented for review and discussion in a 'workshop' at the MDC Board meeting held on 15 April 2025 and the finalised 2025-35 Business Plan was approved by the Shareholder Board on 24 June 2025.
- 7.4 Review of the 2024-30 and 2025-35 Business Plans found that objectives are set out, including how these are to be resourced and achieved, taking into account strategy and implementation, financial forecasts, workforce planning, market analysis etc.

8 Financial Management

- 8.1 MDC confirmed that the company has an independent financial status from the council, with its own current account and deposit account. A copy of the bank mandate was provided which shows two accounts, each

with three signatories who are MDC employees.

- 8.2 A draft 'Financial Policies' document was provided, dated April 2025, detailing an overview of associated policies and what they should contain. MDC clarified that these policies are under development, as new processes are being introduced following recruitment of an in-house Finance Team and introduction of the Sage Intacct system, but are largely adopted in practice. There are various finance procedure documents in place.
- 8.3 A Review of MDC Board minutes and papers confirmed that financial implications are considered in decision-making.
- 8.4 MDC advised that the company follows an agreed procurement process, which was drafted in alignment with Medway Council's process, and has been rolled out, with training, across the company; this includes conducting credit checks before engagement. Additionally, a purchase ordering process is embedded within the Sage Intacct system used by the company, which we were advised mirrors a delegated authority schedule. A purchase order procedure document was provided, which shows that the individual raising the purchase order has to submit this for approval, with the delegated authority schedule showing the MDC employees who have authority to approve purchase orders, including their approval limits.
- 8.5 MDC acknowledged that due to being a small team, overall segregation of duties is not always possible, however the company has ensured that no employees in the Finance Team can raise a project purchase order, as they ultimately pay the resultant invoice.
- 8.6 MDC advised that regular reconciliations are performed as part of the monthly financial reporting process to identify outstanding monies for collection; a procedure document is in place to support this process. For PRS operations, MDC advised there is a rent arrears process in place, including eviction where relevant, which is currently managed by the company's managing agent. Additionally, the company subscribes to a rent guarantee package through their managing agent.
- 8.7 MDC's asset register was provided, which shows that systems, office equipment and fixtures and fittings are recorded. MDC confirmed that assets are independently valued where necessary.
- 8.8 To safeguard assets against theft or damage, insurance policies are in place which cover property damage, business all risks, employer's liability, public and products liability and commercial legal protection. MDC also stated that CCTV is in place.
- 8.9 MDC advised that a qualified and experienced accountant has been recruited into the newly created Finance Director role to provide primary internal control over financial information, including full reconciliation procedures.
- 8.10 Furthermore, as noted in previous sections, an annual external audit is carried out; a copy of the most recent audit report, relating to the year ended 31 March 2024, was provided. Activity number 24 within the Scheme of Delegation identifies that the appointment of auditors is to be approved by the Shareholder Board. Evidence of this process being followed is available within the minutes of the Shareholder Board meeting held on 24 June 2025, when a recommendation included in Exempt Appendix 2 – Financial Overview, of the Update on Business Plan, Financial Monitoring and Risk Registers report, to re-appoint Kreston Reeves for three years, was approved.
- 8.11 As discussed in paragraph 5.6, evidence is available within the minutes of the MDC Board meeting held on 13 September 2024 that the company's annual report & financial statements were presented to and approved by the board. Additionally, MDC confirmed that quarterly management accounts are presented to the MDC Board. Within the MDC Board minutes and papers for the meeting held on 15 April 2025, it is stated that "*Quarterly management accounts will now be provided to the Board*", with the 'as of' December 2024 accounts and forecast included for discussion. The subsequent MDC Board meeting on 28 August 2025, included accounts relating to an overview of 2023-24, an overview of 2024-25, and as of June 2025.

- 8.12 A review of Shareholder Board minutes found that a 'Financial Monitoring' report is presented at each meeting.

9 Risk Management

- 9.1 MDC confirmed that the company has a risk register, with risks RAG rated based upon Medway Council's matrix of likelihood and impact. Review of the risk register found that it is split into three sections 'PRS', 'New Homes' and 'Land and Projects', with risks documented and rated as detailed. Each risk also has a status, action plan, action plan owner and target date recorded.
- 9.2 MDC advised that the MDC Board review the risk register at each meeting, and an update is presented at each Shareholder Board meeting. A review MDC Board minutes and papers found that reviews of the risk register and/or discussions around risks took place at all meetings held in 2024 and 2025. Additionally, a review of Shareholder Board minutes found that an 'Update to Risk Register' report is presented at each meeting.
- 9.3 MDC is also identified as a risk in Medway Council's corporate risk register and MDC advised that they provide updates on current controls / further action for this risk.

10 Ethical Conduct

- 10.1 As discussed in paragraph 2.1, NEDs sign a Letter of Appointment, which includes the terms of their appointment. Review of the Letter of Appointment template found that section 1.5 contains a list of illegal and unethical behaviour that may result in termination; the NED's duty to set and uphold the company's values is also included.
- 10.2 MDC confirmed that all employees sign an Employment Contract, which sets out some expectations of conduct, but advised that a company Code of Conduct Policy is to be developed to supplement this. Review of the Employment Contract template found that section 13 contains a list of illegal and unethical behaviour that may result in termination. Additionally, section four includes a duty to report wrongdoing, and MDC advised that the company is planning to develop a Whistleblowing Policy in 2025-26.
- 10.3 Section four of the Employment Contract also includes a duty to report anti-corruption and bribery issues, however, as discussed in paragraph 2.2, MDC does not currently have a company specific policy, and it is unclear whether NEDs or MDC employees would be aware of Medway Council's policy documents on this subject, or how to access them. Similarly, it was noted that section 15 includes reference to disciplinary and grievance procedures and, again, MDC confirmed that company specific procedures do not exist, and it is assumed that this is in reference to Medway Council's procedures.
- 10.4 MDC advised that as part of the company's external audit for the year ended 31 March 2024, a fraud risk questionnaire was distributed to senior management, those charged with governance and a sample of individuals selected by the external audit engagement team. No related improvements were identified in the Key Audit Findings report prepared by the external auditor.

11 Performance Management

- 11.1 As discussed in paragraph 5.4, arrangements exist for a Business Plan to be prepared, which is endorsed by the MDC Board (see section 7). MDC advised that strategic objectives, corporate values and Key Performance Indicators (KPIs) are set within the Business Plan, which was evident within the Business Plans reviewed, and resources are considered as part of the business planning process.
- 11.2 Additionally, as discussed in paragraph 5.5, a review of MDC Board minutes and papers found that meetings regularly include a 'People' agenda item where resources are discussed.

- 11.3 MDC advised that the company's KPIs evolve from the Business Plan, and feed into management and employee objectives. Review of the 2025-35 Business Plan and updated business KPIs for 2025-26 found that the two are clearly linked.
- 11.4 A review of MDC Board minutes and papers found that KPIs are presented and discussed at board meetings. Additionally, as noted in paragraph 7.4, a 'Progress of Business Plan & KPIs' report is presented at each Shareholder Board meeting.
- 11.5 MDC provided their employee 'annual objectives setting/performance review' template, which demonstrates that SMART objectives, linked to the company's goals and department objectives should be set at the beginning of the year, with reviews against these objectives performed at mid-year and end-of-year.

12 Conclusion & Suggested Actions

- 12.1 In validating MDC's self-assessment, the narratives and evidence produced show overall alignment with good practice, however, some areas of potential improvement were identified.
- 12.2 Based on the findings of this review, it is suggested that the following actions are taken (although it is acknowledged that some of these are already in progress):
- The Memorandum of Understanding and Articles of Association are formally adopted by the MDC Board.
 - The Letter of Appointment template is updated to include specific reference to the need for NEDs to act in accordance with the Nolan Principles.
 - A decision is taken as to whether the company wishes to develop its own policies and procedures relating to bribery and corruption and present these to the MDC Board for approval, or wishes to adopt the council's policy documents on this subject; regardless of the decision, the policy(s) should be shared with NEDs and MDC employees and the Letter of Appointment and Employment Contract templates updated accordingly.
 - The draft Gifts and Hospitality Policy and Register are presented to the MDC Board for approval.
 - Recruitment of a fifth NED commences as soon as possible.
 - The planned training relating to legal roles and responsibilities is completed by all NEDs.
 - A structured induction pack is developed to capture the NED induction process, including training on NED legal roles and responsibilities.
 - The Chairman review is completed and the outcome reported as appropriate.
 - Development of Financial Policies is completed, and the policies presented to the MDC Board for approval.
 - A Whistleblowing Policy is developed and presented to the MDC Board for approval.
 - A decision is taken as to whether the company wishes to develop its own disciplinary and grievance procedures and present these to the MDC Board for approval, or wishes to adopt the council's procedures on these subjects; regardless of the decision, the procedure(s) should be shared with MDC employees and the Employment Contract template updated accordingly.