Medway Council

Meeting of Audit Committee

Thursday, 30 July 2026

6.31pm to 7.35pm

Record of the meeting

Subject to approval as an accurate record at the next meeting of this committee

Present:	Councillors: Browne (Chairperson), Bowen, Hackwell BEM and Lawrence
Substitutes:	Councillor McDonald (Substitute for Nestorov)
In Attendance:	Anumesh Chandra, Independent Member, Audit Committee Steve Dickens, Democratic Services Officer Abbey Gough, Chief Finance Officer James Larkin, Head of Internal Audit and Counter Fraud Andy McNally-Johnson, Head of Corporate Accounts Phil Watts, Chief Operating Officer

170 Apologies for absence

An apology for absence was received from Councillor Nestorov.

171 Record of meeting

The record of the meeting held on 24 June 2026 was agreed and signed by the Chairperson as correct.

172 Urgent matters by reason of special circumstances

There were none.

173 Disclosable Pecuniary Interests and Other Significant Interests

<u>Disclosable pecuniary interests</u>

There were none.

<u>Other significant interests (OSIs)</u>

There were none.

<u>Other interests</u>

There were none.

174 Treasury Management Report 2026/27: Quarter 1

Discussion:

The Head of Corporate Accounts introduced the report. He highlighted that external borrowing had reduced by £26m in the quarter and investment increased by £7m. At the end of round one, there was a forecast £4.162m pressure on the financing and interest budget, primarily caused by higher than anticipated interest rates.

The following issues were discussed:

Overspend – further information was requested regarding the overspend for the financing and interest budget, the Head of Corporate Accounts stated that projections were based on a number of factors including interest rates, potential refinancing costs, capital spend and management action to address spending across the Council which would affect the amount of borrowing required. The position was reviewed on a regular basis; however, it was known that the Council had around £150m of loans maturing during the year, some of which would need to be refinanced.

The Chief Operating Officer added that when the budget had been set in February it was expected that Interest rates would remain flat, however they had risen. There were a number of significant capital projects underway which would continue, so there was limited scope for improvement in current projections, save mitigation within departments through reduced spending.

Debt – it was asked what affect the current financial position would have on the expected debt for the successor North Kent authority following Local Government Reorganisation. The Chief Operating Officer stated that he now expected the Council would require further Exceptional Financial Support (EFS) in the current year which would add to the Council’s debt. By vesting day, it was likely that the Council’s debt would reach between £800m-£900m, in addition the combined debt held by Dartford and Gravesham Brough Councils stood at around £200m, and debt associated with disaggregation of Kent County Council would also need to be added.

Disposal of assets – in response to a Member question whether the disposal of assets had been used to reduce debt, the Chief Operating Officer stated that Capital Receipts have been used to deliver the transformation programme with £7m to fund preparatory work for Local Government Reorganisation (LGR).

He added that the Council had sought funding to support the additional work created by LGR, however, only £900,000 had been earmarked for each unitary authority and this was focused on specific projects such as elections to the new authority. The Government had suggested capital receipts could be used to fund the preparatory work required and the administration had recognised that additional capacity was required to support LGR. The Chief Operating Officer stated that over the next two years further capital receipts of around £50m-£60m would be realised, which would be used to pay debt related to EFS.

Lender Option, Borrower Option (LOBO) – it was asked whether any outstanding loans may be subject to LOBO. The Head of Corporate Accounts there was potentially £40m in loans which could be called in, however at current interest rates he did not expect a request.

Treasury advisors – in response to a question whether officers were satisfied with new the performance of the Council's new treasury Advisors, the Head of Corporate Accounts stated that he was very impressed with the proactive service provided by the treasury advisors. It was agreed that treasury advisors would be asked to provide a briefing on treasury management for all Members.

Decision:

a) The Committee noted the treasury management report 2026/27 quarter 1.

b) An all-Member briefing to be arranged on Treasury Management, to be led by the Council's treasury advisors.

175 Internal Audit Strategy 2025-28 Progress Update

Discussion:

The Head of Internal Audit & Counter Fraud introduced the report. He highlighted the positive progress made against all three strategic objectives; aligning the work of the Internal Audit team with the Council's strategic objectives, increased capacity and capability of staff and increased engagement with senior management and stakeholders.

He added that significant progress had been made in increased use of technology to support the work of the team and improved recruitment and retention which had increased the capacity and resilience within the team. Slower progress had been made in assurance mapping due to capacity pressures.

The following issues were discussed:

Leadership capacity - in response to a question whether short term consultants could be recruited to ease the pressure on leadership capacity, the Head of Internal Audit and Counter Fraud acknowledged that there was a bottleneck in the quality assurance process, however, cost of employing consultants would be an issue and progress, though slower than anticipated was being made. There were a number of ways which assurance mapping could be addressed and senior management was scheduled to attend training provided by the Institute of Internal Auditors in September to consider this.

Financial Improvement Transformation Plan (FIT Plan) - further information was requested regarding the independent validation of the fit plan, the Head of

Internal Audit and Counter Fraud stated that the audit team's role was to validate non-financial actions. When Heads of Service reported that action or review to support transformation had taken place, the Internal Audit team had verified that the work had taken place.

Decision:

The Committee noted the progress during 2025-26 against the Internal Audit Strategy 2025-28.

176 Internal Audit Quality Assurance & Improvement Programme Performance 2025-26

Discussion:

The Head of Internal Audit & Counter Fraud introduced the report which provided an update on the QAIP continuous improvement programme and demonstrated how the service had developed. Performance in the first year was encouraging. There had been an increase in the number of qualified staff and a reduction in staff turnover, improvements in timeliness of key stages of audit and reduction in time to complete audits.

The 2025 Global Internal Audit Standards (GIAS) self-assessment had identified 14 actions to progress conformance with the standards, 11 of which had been completed during the year. The Council now generally conforms with 49 of 52 of the GIAS standards, a rise from 46 last year.

Minor amendments to performance indicators were proposed to support effective reporting, in particular it was proposed to report on 'average time to complete a review'.

The following issues were discussed:

QAIP – further information was requested regarding the rise in the overall costs whilst the cost of each review had fallen. The Head of Internal Audit & Counter Fraud stated that reviews were being completed more quickly, but there had been an overall increase in staffing costs as part of the pay and rewards package. In addition, four members of staff were undertaking apprenticeships and 20% of their workload was required to be off the job learning meaning they could not spend more time on additional audits. As staff gained their qualifications, the efficiencies would lead to more reviews being completed. The Committee welcomed the extension of training opportunities for the team.

Survey responses – the Committee expressed disappointment at the fall in the number of survey responses.

Sickness – it was asked whether sickness would be included in the performance measures, the Head of Internal Audit & Counter stated that sickness had not been included because it was not an indicator of continuous improvement and could be affected by one off events. Staff sickness was considered as part of resource projections when the audit plans were developed and any impacts on resources subsequently reported to the Committee via internal audit updates.

Kent Region – it was asked whether other audit teams in the region were also undertaking similar development programmes. The Head of Internal Audit & Counter Fraud stated that there were five partnerships in the county all of which were undertaking similar development and the senior leaders met on a quarterly basis to share information. Partnerships were making positive progress against the standards, Kent County Council had recently received an external quality assessment (EQA) and there were examples of positive practice which Medway could learn from. Medway's own EQA was not scheduled until January or February 2028.

A Member commented that the EQA was scheduled just prior to the completion of LGR and Medway Council would only continue for a short period following the assessment, he asked whether any consideration had been given to moving the date of the assessment. The Head of Internal Audit and Counter Fraud stated that the possibility of moving the date of the external assessment was under consideration. It was not decided whether it should be brought forwards or delayed until after vesting day in April 2028 to focus on the new authority.

Decision:

a) The Committee noted the progress against the QAIP and GIAS action plan.

b) The Committee approved the revisions to performance indicators QAIP7 to QAIP10 (inclusive) as per table two in Appendix 1.

177 National Fraud Initiative Exercise - Annual Update

Discussion:

The Head of Internal Audit & Counter Fraud introduced the report which outlined progress in relation to the 2024-25 and 2025-26 National Fraud Initiative exercises. The result of the exercises were positive with savings of almost £900,000 including notional savings. In addition, the exercise had prompted a number of fraud investigations, however those figures would be included in the fraud updates which would be reported to committee separately.

The following issues were discussed:

Council Tax checks – in response to a question whether Council Tax checks required significant officer time, the Head of Internal Audit & Counter Fraud stated that Council Tax records were checked for all matches on some reports, such as those matched to the electoral roll, but that others such as those matched to HMRC records are sample checked and work is prioritised. It was asked whether AI could be used to reduce workload, the Head of Internal Audit

& Counter Fraud stated that AI could provide efficiency savings, however, there were a number of factors to consider including data protection.

The Chief Operating Officer added that there was more scope for use of AI within the Council and it was something which was actively being considered by CMT.

Decision:

The Committee noted the report.

178 Audit Committee - Review of Terms of Reference

Discussion:

The Head of Internal Audit & Counter Fraud introduced the report which proposed minor amendments to the membership of the Committee, terminology used for external audit and Internal Audit and Counter-Fraud functions. The changes were proposed to reflect good practice.

The following issues were discussed:

Findings of Internal Audit Assurance Reviews – a Member commented that the financial criteria for reporting the findings of Internal Audit Assurance Reviews had been added last year. He asked for further information why it was proposed to increase the threshold for reporting weakness to the Committee from £25,000 to in excess of £100,000. The Head of Internal Audit & Counter Fraud stated that the threshold had, in hindsight been set at too low a level last year, in comparison, materiality for external audit was significantly higher.

A Member asked whether a threshold for reporting to the Committee should be flexible to the relative service or organisation, for example £100,000 would be a high bar for a school. The Head of Internal Audit & Counter Fraud stated that the threshold acted as a guiding principle, however this did not prevent audits with a lower financial risk to the Committee should that risk be considered a significant.

Decision:

The Committee approved the suggested changes to Terms of Reference and provide a recommendation to Full Council for adoption.

179 Exclusion of the press and public

Discussion:

The Committee were asked to consider whether to exclude the press and public during consideration of agenda item 11: Red Audit Opinion. The Committee requested additional information from legal services which was not available to the meeting. It was agreed that the item would be deferred to facilitate further discussion to consider whether the press and public should be excluded from the meeting for the agenda item.

Decision:

The Committee agreed not to exclude the press and public and defer the item to the following meeting.

180 Notification of a Red Audit Opinion

Decision:

The Committee agreed to defer the report to the next meeting of the Committee.

Chairperson

Date:

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