

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

#### **MINUTES OF THE MEETING HELD ON MONDAY 30 MARCH 2015**

**Present:** Councillor Black (Chairman) and Councillors Daley, Harper and Perry

**Also Present:** Rachel Patton and Darren Wells of Grant Thornton (External Auditor)

64. **APOLOGIES FOR ABSENCE**

It was noted that apologies for absence had been received from Councillor Long.

65. **NOTIFICATION OF SUBSTITUTE MEMBERS**

There were no Substitute Members.

66. **NOTIFICATION OF VISITING MEMBERS**

There were no Visiting Members.

67. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

68. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

69. **EXEMPT ITEMS**

**RESOLVED:** That the items on the agenda be taken in public as proposed.

70. **MINUTES OF THE MEETING HELD ON 26 JANUARY 2015**

**RESOLVED:** That the Minutes of the meeting held on 26 January 2015 be approved as a correct record and signed.

71. **EXTERNAL AUDIT - UNDERSTANDING HOW THE AUDIT COMMITTEE GAINS ASSURANCE FROM MANAGEMENT**

The Committee considered the report of the Head of Finance and Resources setting out responses to the External Auditor's enquiries of those charged with governance. It was noted that:

- To comply with International Auditing Standards, and as part of the year end work, the External Auditor needed to:

Establish an understanding of the management processes in place to detect fraud and to ensure compliance with laws and regulations;

Make enquiries of management as to their knowledge of any actual, suspected or alleged fraud;

Document management's view on some key areas affecting the financial statements; and

Gain an understanding of how the Audit Committee maintained oversight of these processes.

- Two responses had been prepared; one by management and one by the Chairman of the Audit Committee.

**RESOLVED:** That the contents of the responses prepared by management and the Chairman of the Audit Committee to the External Auditor's enquiries, attached as Appendices A and B to the report of the Head of Finance and Resources, be noted.

## 72. EXTERNAL AUDITOR'S AUDIT PLAN 2014/15

The Committee considered the report of the Head of Finance and Resources setting out details of the External Auditor's Audit Plan for 2014/15 and of the anticipated audit fee. It was noted that the plan was risk based and had been developed following consideration of the challenges and opportunities facing the Council, the risks identified and the results of the audit work undertaken to date. The anticipated audit fee was £81,210 which covered the audit of the financial statements and the grant certification work.

In response to questions, Mr Wells of Grant Thornton (the External Auditor) explained that:

- In terms of partnership arrangements, the External Auditor was required to provide an audit opinion and value for money conclusion for each partner authority. However, where there were truly common systems that were operating as intended, there was scope for efficiencies by testing the controls once and the details relevant to each authority separately, and this could result in lower audit fees.
- Audit fees had reduced quite dramatically in recent years, but going forward there would be more of an open market.
- In line with the new International Accounting Standards, partnership arrangements would be accounted for as a joint arrangement and it would be necessary to check that the authority's assets, liabilities and transactions had been accounted for correctly.

- The effects of the introduction of Universal Credit had not been taken into account in this Audit Plan which reviewed expenditure incurred and income received over the past year. Once the phased roll out for Universal Credit and the transactions which would go through the local authority accounts were understood, the implications would be followed through in subsequent Audit Plans.
- To date the External Auditor had undertaken detailed testing on journal transactions recorded for the first ten months of the financial year. No issues had been identified that the External Auditor wished to bring to the Committee's attention.

**RESOLVED:** That the content of the External Auditor's Audit Plan for 2014/15, attached as Appendix A to the report of the Head of Finance and Resources, be noted.

### 73. AUDIT COMMITTEE UPDATE - MARCH 2015

Mr Wells introduced the report of the External Auditor on the progress to date against the 2014/15 Audit Plan. The report also provided a summary of emerging national issues and developments together with a number of challenge questions in respect of these emerging issues.

In response to questions, it was explained that:

- Local authorities should be considering the extent to which they might be affected by the ruling of the Employment Appeal Tribunal in relation to the inclusion of overtime in the calculation of holiday pay. If the Council decided that it was likely to be affected in a material way, then appropriate provision should be made in the accounts. The HR Team was undertaking a detailed review of specific staff to determine whether the liability was material or not.
- In terms of the Local Government Pensions Scheme, the External Auditor would test controls to ensure that employer and employee contributions were being made completely and accurately, test the calculation of benefits for new pensioners and test the new entries into the Pension Fund. The External Auditor also did work in respect of the actuarial valuation for the Borough Council and employed an auditor's expert to assess the actuary's assumptions and methodology to ensure their appropriateness for this purpose.
- A briefing or report could be provided on the key findings of the Independent Commission into Local Government Finance which was established to examine the system of funding local government in England and to bring forward recommendations on how it could be reformed to improve funding for local services and promote sustainable economic growth. The Greater Manchester health devolution deal was an example of what could be achieved in the long term.

**RESOLVED:**

1. That the External Auditor's progress report, attached as Appendix A to the report of the Head of Finance and Resources, be noted.
2. That a report be included on the agenda for a future meeting of the new Audit, Governance and Standards Committee addressing the key findings of the Independent Commission's final report and the implications/opportunities for the Council.

74. **INTERNAL AUDIT OPERATIONAL PLAN**

The Committee considered the report of the Head of Audit Partnership setting out the one-year Internal Audit Operational Plan for 2015/16 and the longer term Plan up to 2018/19. In response to questions, the Head of Audit Partnership explained that:

- The number of audit days allocated to Members' Allowances was driven by the changes to allowances arising from the Council's new governance arrangements and the days allocated to Corporate Governance reflected the time required for an examination of compliance with a SOLACE checklist.
- The results of a recent review of the ICT service desk and user support would be reported back to the new Audit, Governance and Standards Committee and an extensive review of the ICT Service had been included in the longer term Plan.
- The Plan was flexible in that contingency provision was made to build in additional assurance work if required without compromising the rest of the programme.
- It was considered that the total audit allocation for Maidstone Borough Council in 2015/16 represented a sufficient level of resources to evaluate the effectiveness of the Council's risk management, internal control and governance processes.

**RESOLVED:**

1. That the Internal Audit Operational Plan for 2015/16, attached as Appendix A to the report of the Head of Audit Partnership, be approved.
2. That the longer term Operational Plan up to 2018/19 be approved in principle on the understanding that it will be subject to annual review and refresh.
3. That the advice of the Head of Audit Partnership that current resources are considered adequate for the purposes of the proposed Operational Plan be noted.

75. MAIDSTONE INTERNAL AUDIT CHARTER

The Committee considered the report of the Head of Audit Partnership setting out a revised Internal Audit Charter for 2015/16 specifically for Maidstone. It was noted that:

- The External Quality Assessment from the Institute of Internal Auditors last year included a number of comments on the Audit Charter. Specifically, and in order to achieve full compliance, the EQA recommended a range of improvements and clarifications to better set out the Internal Audit Service's role with respect to consultancy, counter fraud and risk management. One notable feature was that the revised Charter included a mechanism for approval of additional consultancy work by Internal Audit to avoid conflicts of interest.
- The development of separate Charters for partner authorities was generally accepted as good practice to meet individual client needs.

In response to questions, the Head of Audit Partnership confirmed that in considering requests for advice on a consultancy basis, the Internal Audit Service would seek to ensure that the involvement of the Service would not constitute a conflict of interest or compromise the appearance or fact of its independence, and would not involve assuming a management role in providing the advice.

**RESOLVED:** That the revised Internal Audit Charter 2015/16, attached as Appendix A to the report of the Head of Audit Partnership, be approved.

76. CHAIRMAN'S ANNOUNCEMENTS

This being the last meeting of the Audit Committee in its current form, the Chairman wished to place on record Members' appreciation of the advice and support provided by the Officers and representatives of the External Auditor.

77. DURATION OF MEETING

6.30 p.m. to 7.35 p.m.