

Audit, Governance & Standards

20 July 2015

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Audit Committee Annual Report 2014/15

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Director or Head of Service	Rich Clarke - Head of Audit Partnership
Lead Officer and Report Author	Russell Heppleston – Audit Manager
Classification	Non-exempt
Wards affected	N/A

This report makes the following recommendations to the final decision-maker:

1. That the Committee **agree** the Audit Committee Annual Report for 2014/15
2. That the Chairman of this Committee provides the report to a meeting of the full Council to demonstrate how the Audit Committee discharged its duties

This report relates to the following corporate priorities:

- Great People
- Great Place
- Great Opportunity

The Audit, Governance & Standards Committee must obtain assurance on the control environment of the Council. The internal control environment comprises the whole network of systems and controls established to manage the Council and meet its objectives. It includes financial and other controls, and arrangements for ensuring the Council achieves value for money from its activities.

Timetable

Meeting	Date
Policy and Resources Committee	N/A
Council	TBC
Other Committee	Audit, Governance & Standards – 13 July 2015

Audit Committee Annual Report 2014/15

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The report demonstrates that the Audit Committee effectively discharged its duties during 2014/15. The report provides assurance to the Council that important internal control, governance and risk management issues were monitored and addressed by that Committee.
 - 1.2 The report is a retrospective review of the activity of the Audit Committee and therefore refers to that Committee's terms of reference prior to the establishment of the Audit, Governance & Standards Committee in 2015/16.
 - 1.3 The report seeks to provide additional assurance to support the Annual Governance Statement.
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2. INTRODUCTION AND BACKGROUND

- 2.1 The Audit Committee was required to monitor audit activity (internal and external), review and comment on the effectiveness of the Council's regulatory framework and review and approve the Council's annual statements of accounts and scrutinise associated strategy and policy. This reports sets out how this was achieved during 2014/15.
 - 2.2 This will be the final year that a report will be published on the annual activity of the Audit Committee. Future reports will reflect the new terms of reference for the Audit, Governance and Standards Committee.
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3. AVAILABLE OPTIONS

- 3.1 The production and presentation of an annual report was required by the Audit Committee's terms of reference. Therefore no other alternative options can be recommended.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The annual Audit Committee report provides the Council with assurance that important governance and risk issues are monitored and addressed. As this report is required by the Committee's terms of reference the preferred option is outlined within the recommendations of this report.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The report will be discussed and agreed with the Audit, Governance & Standards Committee. There has been no prior consultation or committee feedback.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 To maintain consistency with previous years, we recommend that the Chair of Audit, Governance & Standards Committee present the final report to Full Council.
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7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	None identified at this stage.	
Risk Management	The role of the Audit Committee requires it to consider the effectiveness of the Councils risk management arrangements.	
Financial	The role of the Audit Committee includes the review of the financial reports for the Council, including the approval of the Annual Statement of Accounts.	
Staffing	None identified at this stage.	
Legal	None identified at this stage.	
Equality Impact Needs Assessment	None identified at this stage.	
Environmental/Sustainable Development	None identified at this stage.	
Community Safety	None identified at this stage.	
Human Rights Act	None identified at this stage.	
Procurement	None identified at this stage.	
Asset Management	None identified at this stage.	

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix I: Audit Committee Annual Report 2014/15
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9. BACKGROUND PAPERS

None

Appendix I

Audit Committee Annual Report 2014/15

Maidstone Borough Council



Introduction

Maidstone Borough Council understands and supports the value of having an independent Audit Committee as an essential component of the Council's governance framework.

At the end of 2014/15 the Council changed its governance processes which, as a consequence, decommissioned the Audit Committee. The bulk of the Audit Committee's governance responsibilities have transferred to the Audit, Governance & Standards Committee from 2015/16. This report focusses on the Audit Committee as constituted in 2014/15 and so uses the past tense, but the essential governance work it undertook continues.

The Maidstone Audit Committee comprised five members whose key purpose was to monitor audit activity (internal and external), review and comment on the effectiveness of the Council's regulatory framework and review and approve the Council's annual statements of accounts and scrutinise associated strategy and policy

The Committee was independent from the Council's Executive and Scrutiny functions and had clear reporting lines and rights of access in order to discharge its responsibilities in line with its terms of reference. This included direct access to the Council's Appointed Auditor and Head of Internal Audit where appropriate.

The Committee held, developed and maintained skills, interests and knowledge in finance and risk management, accounting concepts, standards and regulation. It was required to provide independent and unbiased scrutiny to promote apolitical discussion, as well as maintain ability to challenge the Executive and senior officers of the Council when required.

The Committee **was not a substitute for the Executive function** in the management of internal or external audit, risk management, governance, or any other review or assurance function. It was the Committee's role to examine these functions, and to offer views and recommendations on the way the management of these functions is conducted.

There are many benefits to be gained from an effective Audit Committee. In fulfilling its role the Committee will:

- raise greater awareness of the need for internal control and the implementation of audit recommendations;
- increase public confidence in the objectivity and fairness of financial and other reporting;
- reinforce the importance and independence of internal and external audit and any other similar review process (for example, providing a view on the Annual Governance Statement);

Terms of Reference

The Committee's detailed Terms of Reference were set out in the Council's constitution and are based on the Chartered Institute of Public Finance and Accounting (CIPFA) model.

In summary, the Audit Committee's core responsibility was providing independent assurance to the Council in relation to the areas of governance. Its core functions were to:

1. Consider the effectiveness of the Authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
2. Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
3. Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
4. Approve (but not direct) internal audit's strategy, plan and monitor performance.
5. Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
6. Receive the annual report of the Head of Internal Audit Partnership.
7. Consider the reports of external audit and inspection agencies.
8. Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
9. Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

Membership

The Audit Committee comprised five Members. The Committee met on five occasions in 2014/15. Audit Committee meetings were held in public, and members of the Council and the public were welcome to attend. All of the Audit Committee agenda papers and minutes are available on the Council's [website](#).

Committee Attendance 2014/15

	14 July 2014	15 Sept 2014	24 Nov 2014	25 Jan 2015	30 Mar 2015
Audit Committee Members					
Cllr Alistair Black (Chairman)	✓	✓		✓	✓
Cllr Dan Daley (Vice- Chairman)	✓	✓	✓	✓	✓
Cllr Paul Harper	✓	✓	✓		✓
Cllr Thomas Long	✓	✓	✓		
Cllr John Perry	✓	✓	✓	✓	✓
Substitute Members					
Cllr Derek Butler			✓		
Cllr Clive English				✓	

The Audit Committee was well supported throughout the year by both Members and Officers. Regular attendees to the Audit Committee meetings included:

Officers
Director of Regeneration & Communities
Head of Finance & Resources
Chief Accountant
Head of Audit Partnership
Audit Manager
Head of Policy & Communications
Head of Mid Kent Revs & Bens
Benefit Fraud Team Manager
External Audit – Grant Thornton
Maidstone BC Audit Manager
Engagement Lead
Democratic Services
Democratic Services Officers

The Committee also had the right to call any other officers of the Council as required.

Reports Considered by the Committee

The Committee considered the following reports during 2014/15:

Report	14 July 2014	15 Sept 2014	24 Nov 2014	25 Jan 2015	30 Mar 2015
Local Code of Corporate Governance	✓				
Annual Governance Statement	✓				
Benefit Fraud Annual Report 13/14	✓				
Audit Committee Annual Report 13/14	✓				
Internal Audit Annual Report 13/14	✓				
Internal Audit Process Refresh 14/15	✓				
Statement of Accounts 13/14	✓				
Treasury Management Performance 13/14	✓				
External Audit Fees 14/15	✓				
External Auditors Audit Plan 13/14	✓				
Audit Committee Progress Report – Grant Thornton	✓				
Irrecoverable Business Rates		✓			
Internal Audit – Follow-up Report Update		✓			
External Auditor’s Audit Findings Report 2013/14		✓			
Annual Governance Statement Action Plan Update			✓		
Member Development Programme			✓		
Treasury Management Strategy Mid-Year Performance 14/15			✓		
External Auditor’s Annual Audit Letter			✓		
Audit Committee Update – Grant Thornton			✓		
Grant Claim Certification Report 13/14				✓	
Interim Internal Audit Report 14/15				✓	
Budget Strategy 15/16 Onwards – Risk Assessment				✓	
Treasury Management Strategy 15/16				✓	
Audit Committee Update – Grant Thornton				✓	
External Audit – “Understanding how the Audit Committee gains assurance from management”					✓
Audit Plan 14/15 – Grant Thornton					✓

Report	14 July 2014	15 Sept 2014	24 Nov 2014	25 Jan 2015	30 Mar 2015
Audit Committee Update – Grant Thornton					✓
Internal Audit Operational Plan 2015/16- 2018/19					✓
Internal Audit Charter					✓
Audit Committee Work Programme		✓	✓	✓	

Reports Considered by the Committee

The Audit Committee considered the following areas to assist it in gaining assurance of the internal control, governance and risk management arrangements within the Council as part of its annual work programme:

Risk Management

In July 2014 the Committee considered the adoption of the risk based audit planning process and a revised internal audit process and assurance levels.

In July 2014 the Committee considered the Benefit Fraud Annual report 2013/14, including summary of fraud prevention and detection activity.

In March 2015 the Committee considered the operational audit plan for 15/16 - 18/19. The report set out the risk based audit planning process in compliance with the Public Sector Internal Audit Standards (PSIAS).

Internal Control

In March 2015 the Committee considered the Internal Audit Charter including substantial revisions as per PSIAS.

In January 2015 the Committee considered the Internal Audit interim report including a summary of audit findings and overall assessment of controls.

In September 2014 the Committee considered the systems of control over irrecoverable business rates.

In July 2014 and November 2014 the Committee considered the Treasury Management activity reports and Prudential Indicators.

Audit Activity

In July 2014 the Committee considered the Head of Audit Partnerships Annual Report for 2013/14 which included the opinion on the Council's control environment and performance of the Internal Audit service against delivery of the audit plan.

Throughout the year the Committee has reviewed and considered various Internal Audit reports covering revised processes and updates. The Committee has contributed and commented to how these have been adopted to the service.

Accounts

In July 2014 the Committee approved the Annual Governance Statement for 2012/13 and reviewed progress against actions in November 2014.

In July 2014 the Committee considered the Statement of Accounts 13/14.

Throughout the year the Committee considered various reports from the External Auditor (Grant Thornton). Notably, the Committee agreed the certification of the grant claim, the Annual Audit Letter and agreed the Audit Plan and fee scales for 14/15.

Review of the Committee's Effectiveness

In partnership with its external auditors and with the support of officers the Audit Committee provided robust and effective independent assurance to the Council on a wide range of risk, governance and internal control issues. The Audit, Governance & Standards Committee concludes, therefore, that the Audit Committee appropriately and effectively fulfilled its duties for 2014/15.

2015/16 Work Programme

The Audit Committee was decommissioned for 2015/16 and the Council established an Audit, Governance & Standards Committee to, among other responsibilities, continue its essential governance work. The Terms of Reference for the Audit, Governance & Standards Committee includes the following key aspects:

- Internal control (and the work of the Council's internal and external auditors)
- Accounts
- Risk management
- Governance (including the Annual Governance Statement)
- Code of Conduct (in respect of standards)
- Complaints relating to breaches of the Cllr Code of Conduct

This Committee looks forward to taking up the new responsibilities and providing effective independent assurance as it works through its work programme for 2015/16.