

THE MAIDSTONE BOROUGH COUNCIL

REPORT OF CHIEF FINANCE OFFICER

3 MARCH 2008

AUDIT COMMITTEE

<p>Report Prepared by: Derek Williamson Chief Finance Officer</p>
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1. REVIEW OF PROGRESS BY THE AUDIT COMMITTEE

1.1 Issue for Decision

1.1.1 This report allows the Audit Committee to review the progress made since the Audit Committee was established and to assess whether changes need to be made to increase the effectiveness of the Committee.

1.2 Recommendation of Chief Finance Officer

1.2.1 It is recommended that the Audit Committee review the self assessment checklist attached at **APPENDIX B** and consider whether to recommend any changes to the current arrangements.

1.3 Background

1.3.1 The establishment of an Audit Committee was agreed by Council in October 2006. The Committee became fully operational from May 2007 but existed in shadow format in the period December 2006 to April 2007.

1.3.2 The Council, in establishing the Audit Committee, agreed that the purpose of the Audit Committee is "to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non financial performance to the extent that it effects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process".

1.3.3 The Terms of Reference of the Audit Committee were agreed, as follows:

- Consider the effectiveness of the Authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.

- Be satisfied that the Authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it.
- Approve (but not direct) internal audit's strategy, plan and monitor performance.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Receive the annual report of the Head of Internal Audit.
- Consider the reports of External Audit and inspection agencies.
- 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.
- 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.

- 1.3.4 The core functions of the Audit Committee, as agreed by Council, are attached at **APPENDIX A**.
- 1.3.5 When the Shadow Audit Committee was created, substantial training was undertaken, some of which was in collaboration with Ashford Borough Council. This training covered the essential elements of the core functions of the Committee and also reviewed the documentation which an Audit Committee would have received in the previous financial year had such a committee existed.
- 1.3.6 Since the Audit Committee has been operational it has received reports from the Head of Internal Audit and Risk Management, on internal audit and risk management activity, from the Chief Finance Officer relating to the Statement of Accounts and reports relating to the activities of the External Auditors. This agenda covers a comprehensive range of core function activities and these substantially fulfil the basic reporting annual cycle.
- 1.3.7 When the Audit Committee was created it was substantially based on the recommendations from CIPFA and their publication, "Practical Guidance for Local Authorities" on the creation of Audit Committees. That publication suggested a self assessment check list which could be used to measure the effectiveness of an audit committee. This is attached at **APPENDIX B**. It would be appropriate for the Audit Committee to consider this self assessment check list at this stage to identify whether there are any changes that can be suggested to Cabinet and Council for the second year of operation of the Committee.
- 1.3.8 It is important to consider the position of the Audit Committee in terms of the External Auditors assessment of the Authority's Use of Resources

annual review. The External Auditors use Key Lines of Enquiry (KLOE) and satisfying these KLOEs is part of the process of deciding whether this Authority receives a score which can range from one to four. Currently this Authority has an overall score of three. The relevant KLOEs for the Audit Committee are set out as follows:-

Level 3 - The Council can demonstrate that it is effectively delivering the core functions of an Audit Committee, as identified in the CIPFA Guidance, that it provides challenge to the Executive when required and provides for effective leadership on governance, financial reporting and audit issues.

Level 4 - An Audit Committee has been established that is independent of the Executive function, with terms of reference that are consistent with CIPFA's Guidance. It provides effective challenge across the Council and independent assurance on the risk management framework and associated internal control environment to Members and the public, and can demonstrate the impact of its work.

1.3.9 One practical issue for the Audit Committee to consider is the sequencing of reports between the Audit Committee, Cabinet and, if necessary, Council. The protocol in this first year of operation is for reports, such as the six monthly Internal Audit report, to be presented to the Cabinet, as the Executive, with the response by the Executive to be considered by the Audit Committee at a later stage in the process. An alternative to this approach is that the Executive could have the benefit of the Audit Committee's comments on such issues before receiving reports. This approach would require the Cabinet to respond adequately to an Audit Committee concern, and this would help demonstrate the effectiveness of the Audit Committee.

1.4 Alternative Actions and Why Not Recommended

1.4.1 The Audit Committee could not review its progress over the last year and leave it for a further period of time before this exercise is done. It is felt appropriate that a review is undertaken at this stage to demonstrate continuous improvement in the Council's financial affairs and good corporate governance.

1.5 Impact on Corporate Objectives

1.5.1 It is essential that there is good governance arrangements in place to ensure that the Council is correctly assessing its corporate objectives, has arrangements in place to deliver them and that this process is monitored in a way that gives confidence to other Members of the Council and the general public.

1.6 Risk Assessment

1.6.1 Risk management is an essential part of the terms of reference of the Audit Committee and this review will ensure that this part of the process

is working effectively.

1.7 Other Implications

Financial

Staffing

Legal

Social Inclusion

Considerations for Disabled Persons

Environmental/Sustainable Development

Community Safety

Human Rights Act

Risk Assessment

1.7.1 None

1.8 Background Documents

1.8.1 CIPFA publication – Audit Committees, Practical Guidance for Local Authorities.

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision? Yes No

If yes, when did it appear in the Forward Plan?

Is this an Urgent Key Decision? Yes No

Reason for Urgency

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]