

Audit Committee Annual Report 2012/13



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**Maidstone Borough Council
Audit Committee Annual Report – 2012-13**



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I am pleased to introduce the annual report of the Audit Committee, covering the year to 31 March 2013.

The Audit Committee is responsible for reviewing the Council's governance arrangements (both financial and non financial) and seeks to obtain appropriate assurances in these areas.

This is the second Annual Report of the Audit Committee and I am pleased to report that the Committee, under the Chairmanship of Councillor Butler, has continued to build on its strength and effectiveness over the past year.

As outlined in the body of this report, the Committee has been actively engaged with the Council's financial managers, internal auditors and external auditors (Grant Thornton). The Committee has provided oversight and challenge to the Council's operations and internal control environment and provided robust scrutiny and challenge of the Authority's financial and project performance. In carrying out its responsibilities, the Committee has continued to follow best practice and to become increasingly challenging of officers whilst always supporting them in their governance priorities.

I would like to thank all members who served on the Committee during 2012-13 and for the continued support of members during the year ahead. My thanks also go to the Council officers who have supported the work of the Committee.

In looking forward to 2013 - 14 and beyond, and given the continued financial pressures facing the Council, the importance of an effective Audit Committee remains critical. Along with my fellow members I look forward to meeting those challenges which lay ahead.

Councillor Rodd Nelson-Gracie
Chairman

1. Introduction

Whilst there is no statutory obligation to have an Audit Committee, Maidstone Borough Council understands and supports the value of the Committee as an essential component of effective governance. In recent years there has been a significant amount of regulation and guidance issued on governance arrangements for private and public sector bodies, with the common feature of effective governance arrangements being the existence of an independent Audit Committee.

The key 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 Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment; and to oversee the financial reporting process and approve the Annual Statement of Accounts. The Committee is independent from the Council's Executive and Scrutiny functions and has clear reporting lines and rights of access in order to deliver on its responsibilities. Meetings are held in public, and all Members of the Council as well as members of the public are welcome and encouraged to attend. The meetings are available as a web-cast.http://www.maidstone.gov.uk/council_and_democracy/web-casting.aspx

Members of the Committee have a broad range of skills, interests and level of knowledge in financial and risk management, accounting concepts and standards and the regulatory regime. They are also required to demonstrate an independent and unbiased approach and be able to challenge the Executive and senior officers of the Council when required.

Regular attendees at Audit Committee meetings include the Director of Regeneration and Communities (with S151 responsibility), the Head of Finance and Customer Services, the Head of Audit Partnership, the Audit Manager and senior representatives from the external auditor. The Committee also has the ability to call any other officers or agencies of the Council as required.

The role of the Audit Committee differs from that of the Council's Scrutiny Committees in that the role of scrutiny is to review policy and challenge whether the Executive (Cabinet) has made the right decisions to deliver policy goals. The Audit Committee, however, provides independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and affects the control environment, and oversight of the financial reporting process.

The Committee is not a substitute for the Executive function in the management of internal or external audit, risk management, corporate governance, stewardship reporting, internal control or any other review or assurance function. It is the Committee's role to examine these functions, and to offer opinions or 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); and

- Provide additional assurance to the Authority and its stakeholders through the results of its work.

2. Terms of Reference and Responsibilities

The Committee's detailed terms of reference are set out in Article 6A of the Council's Constitution and are based on the Chartered Institute of Public Finance and Accounting (CIPFA) model. http://www.maidstone.gov.uk/pdf/Constitution_January%202012.pdf

However, in summary, the core functions of the Committee are 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 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.
10. Approve the Annual Statement of Accounts

3. Membership 2012/13

The Audit Committee comprises five Members of the Council and has a quorum of three. The Committee supports the Executive and Scrutiny Committees in fulfilling the Council's oversight and governance responsibilities through its consideration and approval of the Council's financial statements and financial reporting process, the system of internal controls and risk management and the internal and external audit process. The Committee met on six occasions in 2012/13. Committee agenda papers and minutes are available on the Council's website:

<http://meetings.maidstone.gov.uk/ieListMeetings.aspx?CId=147&Year=2012>

Cllr Derek Butler
Chairman



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Cllr Mervyn Warner
Vice-Chairman



Cllr Alistair Black



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Cllr David Burton



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Cllr Fran Wilson



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4. Committee Attendance 2012/13

The Committee has been well supported throughout the year by both Members and Officers, and attendance records are set out in the table below.

Member/Officer	11/06/12	16/07/12	17/09/12	26/11/12	14/01/13	25/03/13
<u>Audit Committee Members</u>						
Councillor Derek Butler (Chairman)	Y	Y	Y	Y	Y	Y
Councillor Mervyn Warner (Vice-Chairman)	A	A	Y	Y	Y	A
Councillor Alistair Black	Y	Y	Y	A	Y	Y
Councillor David Burton	Y	Y	Y	Y	Y	Y
Councillor Fran Wilson	Y	Y	Y	Y	Y	Y
<u>Substitute Members</u>						
Councillor Dan Daley		Y				
<u>Visiting Members</u>						
Councillor Clive English					Y	
<u>Officers</u>						
Director of Regeneration and Communities	A	Y	Y	Y	Y	Y
Assistant Dir of Regeneration and Cultural Services	N/A	Y	A	Y	N/A	Y
Head of Finance and Customer Services	Y	Y	Y	Y	Y	Y
Senior Accountant (Client)	N/A	Y	Y	Y	N/A	N/A
Head of Audit Partnership	Y	Y	A	Y	Y	Y
Audit Manager	Y	A	Y	Y	Y	Y
Head of Revenues and Benefits	Y	N/A	Y	N/A	N/A	N/A
<u>External Audit</u>						
Ellie Dunnet		Y	Y			
Steve Golding		Y	Y	Y		Y
Darren Wells			Y	Y		
<u>Democratic Services</u>						
Debbie Snook	Y	Y	Y	Y	Y	N/A
Janet Barnes	N/A	N/A	N/A	N/A	N/A	Y

Key: Y = Attendance, A = Apologies Received, N/A = Not Applicable

5. The Committee considered the following reports during 2012/13

Function/Issue	Lead Officer/ Body	11/06/12	16/07/12	17/09/12	26/11/12	14/01/13	25/03/13
<u>INTERNAL AUDIT ACTIVITY</u>							
Audit Committee Annual Report 2011/12	AM			Y			
Internal Audit Annual Report 2011/12	HAP	Y					
Internal Audit – Six Month Interim Report	HAP				Y		
Internal Audit Operational Plan 2013/14	HAP						Y
Risk Management Update	HAP			Y			
Draft Strategic Risk Register	HAP					Y	
Internal Audit Partnership Update	HAP				Y		
Public Sector Internal Audit Standards	HAP						Y
<u>EXTERNAL AUDIT ACTIVITY</u>							
Audit Commission – Progress Report	EA	Y					Y
Audit Commission's Annual Audit Letter 2011/12	EA				Y		
Certification of Financial Claims and Returns	EA						Y
External Audit Fees 2012/13	EA				Y		
<u>REGULARITY FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>							
Benefit Fraud Annual Report 2011/12	HRB	Y					
Annual Governance Statement 2011/12	HFCS	Y					
Treasury Management Annual Report 2011/12	HFCS	Y					
Maidstone Museum East Wing Project Review - Update	ADRCS		Y	Y	Y		Y
Update on Proposed Single Fraud Investigation Service	HRB			Y			
Review of Audit Committee	HAP			Y			
Audit Committee Meetings Schedule	HAP			Y			
Audit Committee Frequency of Meetings	HAP				Y		
Audit Committee – Appointment of Independent Member	HFCS				Y		
Treasury Management Strategy Mid-Year Performance 2012/13	HFCS				Y		
Treasury Management Strategy 2013/14	HFCS					Y	
Review of Risk Assessment of Budget Strategy 2013/14 Onwards	HFCS					Y	
Relationship Between Audit Committee and Corporate Services Overview and Scrutiny Committee	DSO					Y	

Function/Issue	Lead Officer/ Body	11/06/12	16/07/12	17/09/12	26/11/12	14/01/13	25/03/13
ACCOUNTS							
Statement of Accounts 2011/12	HFCS		Y				
Audit Commission's Annual Governance Report and Statement of Accounts 2011/12	HFCS			Y			

Key

ADRCS	Assistant Director of Regeneration and Cultural Services
AM	Audit Manager
DSO	Democratic Services Officer
EA	External Auditor
HAP	Head of Audit Partnership
HFCS	Head of Finance and Customer Services

6. Assurance

The Audit Committee has considered the following areas to assist it in gaining assurance of the governance arrangements within the organisation as part of its annual work programme.

Risk Management

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

This has been achieved by:

- Receiving a report of the Head of Audit Partnership on action to be taken to progress the Council's risk management arrangements.
- The Chair of the Audit Committee attended and participated in Cabinet discussion of the Council's Strategic Risk Register
- Considering the draft Strategic Risk Register prior to Cabinet approval
- Considering the adequacy of the risk based approach to audit planning that led to the creation of the Council's 2013/14 operational audit plan
- Considering Cabinet referral of property investment governance arrangements
- Considering the report of the Head of Finance and Customer Services and agreeing the risk assessment of the Budget Strategy 2013-14 onwards.
- Considering reports of the Assistant Director of Regeneration and Cultural Services on action taken in relation to the Maidstone Museum East Wing project management.
- Considering the report of the Director of Regeneration and Communities with regard to the establishment by the Department of Work and Pensions of a Single Fraud Investigation Service and the financial and operational impact on the Council's Benefits Fraud service.

Internal Control assurance

- **Be satisfied that the Authority's assurance statements, including the Annual Governance Statement, properly reflect the control environment and any actions required to improve it.**

This has been achieved by:

- Considering the Head of Audit Partnership opinion of internal control for 2011/12 and agreeing the significant issues to be included in the Council's Annual Governance Statement for 2011/12
- Endorsing the Council's Annual Governance Statement for 2011/12 and the action plan prior to reporting to Cabinet
- Considering internal audit assurance – direction of travel reports for ongoing assurance of the adequacy of arrangements for delivering improvement to identified weakness in internal control
- Considering the report of the Director of Regeneration and Communities setting out details of the performance of the Benefit Fraud team during 2011/12 and the implications arising from the Welfare Reform Act and forthcoming introduction of Universal Credit.

Audit Activity

- **Approve (but not direct) Internal Audit's strategy and audit plan and monitor performance**
- **Review summary Internal Audit reports and the main issues arising , and seek assurances that action has been taken where necessary**
- **Receive the annual report of the Head of Audit Partnership**
- **Consider the reports of external audit and inspection agencies**
- **Ensure there are effective relationships between internal and external audit, and inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.**

Internal Audit

The Committee has:

- Considered the Annual Report of the Head of Audit Partnership detailing the work of the Internal Audit function during the year and agreed that the Council's internal audit service is effective.
- Agreed the Internal Audit operational Audit Plan for 2013/14
- Noted the progress made by the Internal Audit Partnership at the mid-point of the 5-year agreement and actions proposed to further improve the service.
- Received the interim report setting out the work of Internal Audit for the first half of the year

- Considered Internal Audit reports with regard to those areas providing minimal or limited controls assurance
- Noted the new Public Sector Internal Audit Standards and action to be taken to implement them.

External Audit

The Committee has:

- Received progress reports on the transfer of the Council's External Audit responsibilities to Grant Thornton for the period 2012-17
- Considered and agreed the Audit Plan for 2011/12 and progress reports
- Received and agreed the Annual Audit Letter for 2011/12
- Considered and agreed the certification of grant claim report
- Considered the reduction in external audit fees for the 2012/13 audit and action being taken to mitigate the risk of additional fees being incurred.
- Received a progress report against the 2012/13 external audit plan

Accounts
<ul style="list-style-type: none"> • 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 • Approve the Annual Statement of Accounts

The Committee has sought assurance by:

- Receiving and approving the Annual Governance Report for 2011/12 and approving the Letter of Representation to the Audit Commission
- Approving the Statement of Accounts for 2011/12
- Considering the Treasury Management Annual Report 2011/2 and regular status reports
- Considering the 2012/13 Treasury Management Strategy mid-year performance report
- Considering the draft 2013/14 Treasury Management Strategy for submission to Council

7. Audit Committee's Effectiveness

The Committee continued to review its effectiveness during the year and identified opportunities for improvement. This has included:

- Introducing an Annual Audit Committee Report for presentation to Full Council to demonstrate the effectiveness of the Committee by ensuring that important governance issues are being monitored and addressed by the Committee and providing evidence to support the Annual Governance Statement.
- Reviewed progress against the Local Government Improvement and Development (LGID) agency action plan for improvements to the effectiveness of the Committee
- Approved a reduction in the frequency of meetings of the Committee during the municipal year - from 6 to 4 – to ensure the most effective use of its time and scheduling of its work programme and for a date to be set aside in June each year for Member training
- Considering the appointment of an independent member to the Audit Committee and development of a skills and experience matrix for the Committee
- Considered arrangements between the Audit Committee and the Corporate Services Overview and Scrutiny Committee and agreed for the Chairmen and Vice-Chairmen to meet at the beginning of each municipal year to develop complementary work programmes and avoid duplication.
- Adopted a protocol for the referral of matters between the Committee and the Corporate Services Overview and Scrutiny Committee and its members

Future Challenges

The Audit Committee will continue with its existing duties whilst continually striving to achieve best practice where this is feasible and affordable. The Committee will satisfy itself that new external audit arrangements work satisfactorily, following the appointment of Grant Thornton, and that the Council's audit, governance and risk management arrangements continue to be strengthened. Member training and development will continue to be a priority both for the current members and the new members appointed to the Committee at the beginning of the new municipal year.

8. Proposed 2013/14 Work Programme

- The Committee faces a challenging year ahead and the Committee's current (draft) work programme for the forthcoming year is set out below.

Function/Issue	Lead Officer/ Body	10/06/13	15/07/13	16/09/13	25/11/13	03/03/14
<u>INTERNAL AUDIT ACTIVITY</u>						
Audit Committee Annual Report 2012/13	AM		Y			
Internal Audit Annual Report 2012/13	HAP		Y			
Internal Audit – Six Month Interim Report	HAP				Y	
Internal Audit Operational Plan 2014/15	HAP					Y
Strategic Risk Register - Action Plans	HAP			Y		
<u>EXTERNAL AUDIT ACTIVITY</u>						
External Auditor's Opinion Audit Plan 2012/13	EA		Y			
External Auditor's Audit Progress Report	EA		Y			Y
External Auditor's Audit Fee Letter 2013/14	EA		Y			
External Auditor's Annual Audit Letter 2012/13	EA				Y	
Certification of Financial Claims and Returns	EA					Y
<u>REGULARITY & FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>						
Property Investment	HFR	Y				
Fraud Annual Report 2012/13	HRB		Y			
Local Code of Corporate Governance – Annual Update	HFR		Y			
Annual Governance Statement 2012/13	HPC		Y			
Treasury Management Annual Report 2012/13	HFR		Y			
Maidstone Museum East Wing Project Review	CEX		Y			
Review of Financial Thresholds in the Contract Procedure Rules	HFR			Y		
Review of corporate Policies						
- Whistleblowing						
- Anti Fraud and Corruption	HAP			Y		
- Money Laundering						
- Risk Management						
Treasury Management Strategy Mid-Year Performance 2013/14	HFR				Y	
Treasury Management Strategy 2014/15	HFR				Y	
Review of Risk Assessment of Budget Strategy 2013/14 Onwards	HFR				Y	
<u>ACCOUNTS</u>						
Statement of Accounts 2012/13	HFR		Y			
External Auditor's Annual Governance Report and Statement of Accounts 2012/13	HFR			Y		

MEMBER TRAINING/DEVELOPMENT

Audit Committee Member Skills

HAP

Y

Key

AM Audit Manager
CEX Chief Executive
EA External Auditor

HAP Head of Audit Partnership
HFR Head of Finance and Resources
HPC Head of Policy and Communications

9. Audit Committee Membership 2013/14

Cllr Rodd Nelson-Gracie
Chairman



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Cllr Derek Butler
Vice-Chairman



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Cllr Alistair Black



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Cllr Dan Daley



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Cllr Mervyn Warner

