

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

#### **MINUTES OF THE MEETING HELD ON 16 SEPTEMBER 2013**

**Present:** Councillor Butler (in the Chair) and  
Councillors Black, Daley, Warner and Yates

**Also Present:** Ellie Dunnet, Steve Golding and Darren Wells –  
Grant Thornton – External Auditor

46. CHAIRMAN

In the absence of the Chairman, the Vice-Chairman (Councillor Butler) took the Chair.

47. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Nelson-Gracie.

48. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Yates was substituting for Councillor Nelson-Gracie.

49. URGENT ITEM

Report of the Head of Finance and Resources – Grant Thornton Letter of Representation

The Vice-Chairman (in the Chair) stated that, in his opinion, the report of the Head of Finance and Resources relating to the Council's Letter of Representation to the External Auditor should be taken as an urgent item as it formed part of the formal approval of the Statement of Accounts for 2012/13.

50. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

51. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

52. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

53. EXEMPT ITEMS

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

54. MINUTES OF THE MEETING HELD ON 12 AUGUST 2013

**RESOLVED:** That the Minutes of the meeting held on 12 August 2013 be approved as a correct record and signed.

55. INTERNAL AUDIT CHARTER

The Committee considered the report of the Head of Audit Partnership setting out details of a number of issues to be addressed in order to put the Internal Audit Partnership in a strong position for the future. These included:

- The introduction of an Internal Audit Charter to define the purpose, authority and responsibilities of the Internal Audit service;
- An external assessment of conformance with the Public Sector Internal Audit Standards (PSIAS);
- The creation of a one employer model through the TUPE process for the Internal Audit shared service;
- The extension of the Internal Audit shared service agreement for five years from 1 April 2014; and
- The recruitment of a new Head of Audit Partnership as the current post holder would be retiring on 31 March 2014.

It was noted that:

- In accordance with the PSIAS which came into effect on 1 April 2013, the Audit Committee was required to approve the Internal Audit Charter.
- The PSIAS required that an independent external assessment of conformance be carried out at least once every five years. The Head of Audit Partnership considered that a five-year assessment was appropriate, subject to the Audit Committee continuing to be satisfied with the quality and effectiveness of the service. He also considered that an early assessment would be helpful in terms of identifying any areas for improvement and providing positive assurance to the Committee and other stakeholders in terms of conformance with the standards. In this connection, an external quality assessment would be carried out by a team from the Chartered Institute of Internal Audit in January 2014, and the cost (£7,000) would be spread across the four partner Councils. It was the intention that full conformance with the PSIAS would be demonstrated by 31 March 2014.

- The one employer proposal would address the disadvantages associated with the current shared service arrangements for Internal Audit, including lack of flexibility in the use of staff and to adjust the cost of the service; variations in pay and conditions of employment between the four partner authorities; no options for the rotation of staff; difficulties in maintaining auditor objectivity and independence; limited cross partnership learning and limitations regarding the resilience that can be provided; and difficulties in management control.
- The shared service arrangements for Internal Audit were the subject of a five year collaboration agreement which was due to expire on 31 March 2015. In the light of the proposed changes to the employment model and the need to attract a good quality candidate for the post of Head of Audit Partnership, it was proposed that the agreement be extended for five years with effect from 1 April 2014, expiring on 31 March 2019.

The Head of Audit Partnership advised the Committee that the Maidstone Internal Audit team had undergone some changes recently. Russell Heppleston had been appointed as Audit Manager for Maidstone and Swale with immediate effect, and two new Internal Auditors had been appointed.

In response to questions by Members, the Head of Audit Partnership explained that:

- In terms of the Internal Audit Charter, and, in particular, the training and qualifications needed to be an Internal Auditor, it had been a requirement of the recent recruitment exercise that the candidates be professionally qualified or pursuing a professional qualification. Internal Auditors were expected to enhance their knowledge, skills and other competencies through continuing professional development, and at Maidstone a training budget was maintained to support that.
- There was a risk that one or more of the four partner authorities might not agree to the proposal to extend the collaboration agreement to 2019. However, the Officer Board was supportive, and there was no indication at the moment that any of the Councils wished to withdraw from the partnership.

**RESOLVED:**

- (a) That the Internal Audit Charter, attached as an Appendix to the report of the Head of Audit Partnership, be approved;
- (b) That it be noted that an external assessment of Internal Audit's conformance with the Public Sector Internal Audit Standards will be carried out in January 2014;

- (c) That the proposal to create a one employer model for the Internal Audit shared service be noted;
- (d) That the proposal to extend the Internal Audit shared service agreement for five years from 1 April 2014 be noted; and
- (e) That the arrangements that are being put in place to recruit a new Head of Audit Partnership be noted.

56. EXTERNAL AUDITOR'S AUDIT FINDINGS REPORT 2012/13

The Committee considered the report of the Head of Finance and Resources concerning the findings of the audit of the Statement of Accounts for 2012/13 undertaken by Grant Thornton who had replaced the Audit Commission as the Council's External Auditor. In conjunction with this report, the Committee considered the urgent report of the Head of Finance and Resources relating to the Council's Letter of Representation to the External Auditor as it formed part of the formal approval of the Statement of Accounts for 2012/13. It was noted that:

- The audit was substantially complete although the External Auditor was finalising work in a number of areas including obtaining and reviewing revised working papers in respect of Collection Fund debtors and creditors.
- The audit had identified the need to make a number of adjustments to the un-audited Statement of Accounts. These related primarily to classification errors and did not impact upon the Council's net expenditure or revenue balances. The External Auditor had also agreed several changes to the notes to the Accounts in order to improve the clarity and presentation of the Statement.
- The External Auditor had made a number of specific recommendations arising from the audit of the Statement of Accounts. These related to the valuation of property assets and the Officers had agreed to implement them in accordance with the recommended timescale. There were no specific recommendations in relation to the Value for Money conclusion, and the External Auditor was satisfied that in all significant respects the Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of its resources.
- Subject to the satisfactory resolution of the outstanding issues, including the reissue of the Council's Letter of Representation as a consequence, it was anticipated that the External Auditor would provide an unqualified opinion on the Statement of Accounts by the end of September 2013.

The Committee asked a number of questions of the Officers relating to:

- The reasons for some significant variances in original estimates and actual expenditure across the portfolios;

- Accounting practice in relation to intangible assets (for example, software licences);
- The implications of misclassifications, particularly with regard to the Comprehensive Income and Expenditure Statement year on year;
- The establishment and maintenance of a level of reserves appropriate for the risks to which the Authority is exposed;
- The adequacy of the management response to the External Auditor's recommendations in relation to the valuation of property assets;
- The inclusion in the Accounts of estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain, and the effects if the actual results are materially different from the assumptions and estimates, for example the assumptions to be made in terms of the net liability to pay pensions;
- The trading deficit in relation to the Lockmeadow Market complex (due in part to occupancy levels);
- The valuation of Heritage Assets including museum exhibits and statues and sculptures; and
- The skills and experience available within the Finance Team to meet requirements.

The External Auditor advised the Committee that whilst there had been an improvement in the overall quality of the working papers provided to support the financial statements this year, the number of amendments made to disclosure notes as a result of the audit was high compared to other authorities and needed to be addressed.

The Head of Finance and Resources confirmed that he would ensure that the working papers in relation to the Collection Fund were made available as soon as possible to enable the External Auditor to conclude his opinion. The recruitment of a Chief Accountant would have an impact during the lead up to the 2013/14 Accounts closedown.

**RESOLVED:**

- (a) That the Audit Findings Report from the External Auditor, as set out in draft form as Appendix A to the report of the Head of Finance and Resources, be approved and that, in approving the report, the Committee notes the amendments to the Statement of Accounts, agrees the response to the proposed action plan and acknowledges the Council's Letter of Representation to the External Auditor on the understanding that it will be reissued when the outstanding issues are satisfactorily resolved;

- (b) That subject to the satisfactory resolution of the outstanding issues, the Statement of Accounts, as set out in Appendix B to the report of the Head of Finance and Resources, be approved; and
- (c) That the contents of the External Auditor's Financial Resilience Report, attached as Appendix C to the report of the Head of Finance and Resources, be noted.

57. GRANT THORNTON LETTER OF REPRESENTATION

See Minute 56 above.

58. AUDIT COMMITTEE WORK PROGRAMME 2013/14

The Committee considered its work programme for the remainder of the 2013/14 Municipal Year. Members expressed concern about the number of reports listed for the meeting scheduled to be held on 25 November 2013.

**RESOLVED:** That the Audit Committee work programme be noted and that the position regarding the potentially excessive agenda for the meeting scheduled to be held on 25 November 2013 be reviewed nearer the time.

59. MR STEVE GOLDING - EXTERNAL AUDITOR

Members were informed that this was Mr Golding's last meeting of the Audit Committee before his retirement.

**RESOLVED:** That Mr Golding be thanked for his services and contribution to the work of the Audit Committee over the years.

60. DURATION OF MEETING

6.30 p.m. to 7.30 p.m.