

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 14 JULY 2014

REPORT OF HEAD OF AUDIT PARTNERSHIP

Report prepared by Russell Heppleston

1. AUDIT COMMITTEE ANNUAL REPORT 2013/14

1.1 Issue for Decision

1.1 The report seeks to demonstrate that the Audit Committee has effectively discharged its duties during 2013/14. The report provides assurance to the Council that important internal control, governance and risk management issues are being monitored and addressed by the Committee. The report seeks to provide additional assurance to support the Annual Governance Statement.

1.2 Recommendation of the Head of Audit Partnership

1.2.1 That the Audit Committee agrees the Audit Committee Annual Report 2013/14 as attached in Appendix A – subject to the addition of a Chairman’s foreword.

1.2.2 That the Chairman of the Audit Committee provides the report to a meeting of the Full Council to demonstrate how the Committee has discharged its duties.

1.3 Reasons for Recommendation

1.3.1 The Audit Committee is required through their Terms of Reference to produce an annual report to the Executive. The report should be provided by the Chairmen to a meeting of the Full Council.

1.3.2 The purpose of the report is to provide the Council with assurance that the responsibilities of the Audit Committee are being met.

1.3.3 The report sets out the work of the Committee from 1 April 2013 to 31 March 2014 which has enabled the Committee to provide assurance over the Council’s control environment. The work of the Audit Committee, as those charged with governance, also supports the Annual Governance Statement.

1.8 Conclusions

1.8.1 The Audit Committee is 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 has been achieved during 2013/14.

1.9 Relevant Documents

1.9.1 Appendices

1.9.1.1 Appendix A – Audit Committee Annual Report 2013/14

1.9.2 Background Documents

1.9.2.1 This will be the third year that the Audit Committee has produced an annual report, and therefore the reports for 2012 and 2013 are available from the Council's website.

| <u>IS THIS A KEY DECISION REPORT?</u> | | <u>THIS BOX MUST BE COMPLETED</u> | |
|---|-------------------------------------|--|--------------------------|
| Yes | <input checked="" type="checkbox"/> | No | <input type="checkbox"/> |
| If yes, this is a Key Decision because: | | | |
| | | | |
| Wards/Parishes affected: | | | |
| | | | |

Audit Committee Annual Report 2013/14



1. Introduction – The Role of the Audit Committee:

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

The Maidstone Audit Committee comprises five members whose key purpose is 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 is independent from the Council's Executive and Scrutiny functions and has clear reporting lines and rights of access in order to discharge its responsibilities in line with its terms of reference. This includes direct access to the Council's Appointed Auditor and Head of Internal Audit where appropriate.

The Committee holds, develops and maintains skills, interests and knowledge in finance and risk management, accounting concepts, standards and regulation. It is 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 is 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 is the Committee's role to examine these functions, and to offer views and recommendations on the way the management of these functions is conducted.

2. Terms of Reference

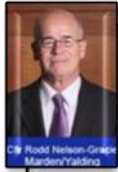
The Committee's detailed Terms of Reference are set out in Article 6A of the Council's constitution and are based on the Chartered Institute of Public Finance and Accounting (CIPFA) model.

In summary, the Audit Committee core is responsible for providing independent assurance to the Council in relation to the areas of governance. Its core functions 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 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.

3. Membership 2013/14

The Audit Committee comprised of nine members in 2013/14:



Cllr Rodd Nelson-Gracie
Chairman



Cllr Derek Butler
Vice Chair



Cllr Alistair Black



Cllr Dan Daley



Cllr Mervyn Warner

4. Committee Attendance 2013/14

The Committee met on seven occasions in 2013/14. Audit Committee meetings are held in public, and members of the Council and the public are welcome to attend. All of the Audit Committee meetings are webcast, and recordings, agenda papers and minutes are available on the Council's [website](#).

The Audit Committee has been well supported throughout the year by both Members and Officers. Regular attendees to the Audit Committee meetings include the Director of Regeneration and Communities, the Head of Finance and Resources, the Head of Audit Partnership, the Audit Manager and representatives from the external auditor. The Committee also has the right to call any other officers or agencies of the Council as required.

Attendance records for 2013/14 are set out in the table below:

| Cllr/Officer | 10 Jun 2013 | 15 Jul 2013 | 12 Aug 2013 | 16 Sept 2013 | 25 Nov 2013 | 10 Feb 2014 | 24 Mar 2014 |
|--|----------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|
| Audit Committee Members | | | | | | | |
| Cllr Rodd Nelson Gracie (Chairman) | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ |
| Cllr Derek Butler (Vice-Chairman) | ✓ | | ✓ | ✓ | | ✓ | ✓ |
| Cllr Alistair Black | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Cllr Dan Daley | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ |
| Cllr Mervyn Warner | | | | ✓ | | | |
| Substitute Members | | | | | | | |
| Cllr Fran Wilson | ✓ | ✓ | | | ✓ | | |
| Cllr Michael Yates | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Cllr Bryan Vizzard | | | | | | ✓ | ✓ |
| Officers | | | | | | | |
| Dir of Regeneration & Communities | | ✓ | | | ✓ | | ✓ |
| Head of Finance & Resources | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Head Audit P'ship | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Head of Policy & Communications | | | ✓ | | ✓ | | ✓ |
| Head of Revenues & Benefits Service | | ✓ | | | | | ✓ |
| Audit Manager | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Senior Accountant | | | ✓ | ✓ | ✓ | | ✓ |
| External Auditor (Grant Thornton) | | | | | | | |
| MBC Audit Manager | | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Engagement Lead | | | ✓ | ✓ | ✓ | | |
| Democratic Services | | | | | | | |
| Democratic Services Officer | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

5. Reports Considered by the Committee

The Committee considered the following reports during 2013/14:

| Function / Issue | 10 Jun 2013 | 15 Jul 2013 | 12 Aug 2013 | 16 Sept 2013 | 25 Nov 2013 | 10 Feb 2014 | 24 Mar 2014 |
|---|-------------|-------------|-------------|--------------|-------------|-------------|-------------|
| Internal Audit Activity | | | | | | | |
| Internal Audit Annual Report 2012/13 | | ✓ | | | | | |
| Audit Committee annual report | | ✓ | | | | | |
| Internal Audit Charter | | | | ✓ | | | |
| Internal Audit Interim Report | | | | | ✓ | | |
| Internal Audit Operational Plan 2014/15 | | | | | | | ✓ |
| Internal Audit External Quality Assessment of Conformance with the Public Sector Internal Standards | | | | | | | ✓ |
| Internal Audit External Audit Protocol | | | | | | | ✓ |
| External Audit Activity | | | | | | | |
| External Audit Fees 2013/14 | | ✓ | | | | | |
| External Auditors Audit Plan 2012/13 | | ✓ | | | | | |
| External Audit Progress Report - July 2013 | | ✓ | | | | | |
| External Auditors Audit Findings Reports 2012/13 | | | | ✓ | | | |
| Grant Thornton Letter of Representation | | | | ✓ | | | |
| External Auditor's Letter to the Chairman | | | | | ✓ | | |
| External Auditor's Annual Audit Letter 2012/13 | | | | | ✓ | | |
| Grant Thornton - Enquiries of Management & Audit Committee As Those Charged With Governance | | | | | | | ✓ |
| Update on Enhanced Scrutiny Arrangements and Public Meetings | | | | | | | ✓ |

| Function / Issue | 10 Jun 2013 | 15 Jul 2013 | 12 Aug 2013 | 16 Sept 2013 | 25 Nov 2013 | 10 Feb 2014 | 24 Mar 2014 |
|--|----------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|
| Regulatory Framework / Internal Control Assurance | | | | | | | |
| Property Investment | ✓ | | | | | | |
| Audit Committee Work Programme | | | | ✓ | ✓ | | |
| Audit Committee Members Skills | | ✓ | | | | | |
| Local Code of Corporate Governance | | ✓ | ✓ | | | | |
| Treasury Management Annual Report 2012/13 | | ✓ | | | | | |
| Treasury Management Half Year Review | | | | | ✓ | | |
| Treasury Management Strategy 2014/15 | | | | | | ✓ | |
| Budget Strategy 2014-15 Onwards - Risk Assessment | | | | | | ✓ | |
| Benefit Fraud Annual Report 2012/13 | | ✓ | | | | | |
| Reconciliation of the Collection Fund 2012/13 | | | | | | ✓ | |
| Certification of Financial Claims and Returns | | | | | | | ✓ |
| Accounts | | | | | | | |
| Draft Annual Governance Statement | | | ✓ | | | | |
| Annual Governance Statement – Action Plan Update | | | | | ✓ | | |
| Statement of Accounts 2012/13 | | ✓ | ✓ | | | | |

6. Assurance

The Audit Committee has considered the following areas of work over the course of the year to demonstrate how it has effectively fulfilled its duties in line with its terms of reference:

Risk Management

In July 2013 the Committee considered the Benefit Fraud Annual report 2012/13, including summary of fraud prevention and detection activity.

In March 2014 the Committee considered the operational audit plan for 2014/15 in compliance with the Public Sector Internal Audit Standards (PSIAS) which adopted risk based audit planning.

In February 2014 the Committee considered the Risk Assessment for the Budget Strategy 2014/15.

Internal Control

In June 2013 the Committee considered the changes to the criteria for prudential borrowing in relation to property investment.

In September 2013 the Committee considered the updated Internal Audit Charter including revisions from adoption of the PSIAS.

In December 2013 the Committee considered the Internal Audit interim report including a summary of audit findings and overall assessment levels of controls assurance.

In July 2013 and November 2013 the Committee considered the Treasury Management activity reports and Prudential Indicators including investment activity and performance. The Committee also approved the 2014/15 Treasury Management strategy in February 2014.

Audit Activity

In July 2013 the Committee considered the Head of Audit Partnerships Annual Report for 2012/13 which included the opinion on the Council's control environment and performance of the Internal Audit service against delivery of the audit plan.

In November 2013 the Committee received the interim report and progress against the 2013/14 Internal Audit plan.

In March 2014 the Committee considered the outcomes from the Internal Audit External Quality Assessment against the PSIAS, noting the achievement of full or partial compliance against all 56 standards.

In March 2014 the Committee noted the Internal and External Audit protocol.

Accounts

In August 2013 the Committee approved the Annual Governance Statement for 2012/13 for submission to Council. The Committee also received a progress report on the AGS action plan in November 2013.

In August 2013 the Committee considered the draft accounts prior to the approval of the Statement of Accounts in August 2013.

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 2013/14.

7. Conclusion

In partnership with its External Auditors, and with the support of Officers, the Audit Committee has provided robust and effective independent assurance to the Council on a wide range of risk, governance and internal control issues. It is concluded therefore, that the Audit Committee can demonstrate that it has appropriately and effectively fulfilled its duties for 2013/14.

8. Work Programme 2014/15

The Audit Committee will continue to strive to achieve best practice in order to satisfy itself that the Council maintains effective systems of internal control, governance and risk management. In particular the committee will continue to oversee and seek assurances over the external audit arrangements with Grant Thornton.

The Members of the Audit Committee will seek to continually enhance their skills, knowledge and experience through training and development in order to be able to provide robust challenge throughout 2014/15. This will include induction of new members, and continual development of existing members of the Committee.

The Audit Committee will face challenges in 2014/15 as the Council continues to operate in times of austerity, but also as the Council continues down a path of adopting new ways of working and delivering services, and moving forward with its commercialisation agenda.