

# TONBRIDGE & MALLING BOROUGH COUNCIL

## AUDIT COMMITTEE

22 June 2009

### Joint Report of the Chief Internal Auditor and the Chairman of the Audit Committee

#### Part 1- Public

#### ANNUAL REPORT ON THE WORK OF THE AUDIT COMMITTEE 2008/09

##### Summary

**This annual report informs Members of the work carried out by the Audit Committee during 2008/09 as part of the overall Corporate Governance process of the Council**

#### 1.1 Background

- 1.1.1 During the Key Lines of Inquiry inspection of 2005 it became clear that the Council would require an Audit Committee in order to meet these requirements. This was followed by the CIPFA publication "Audit Committees: Practical Guidance for Local Authorities".
- 1.1.2 It was agreed in the Council Meeting of December 2005 that the Council should form an Audit Committee with terms of reference aligned to the guidance given in the CIPFA publication.
- 1.1.3 The inaugural meeting of the Audit Committee took place in April 2006.

#### 1.2 Role of the Audit Committee

- 1.2.1 CIPFA guidance states that the purpose of the 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 affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process".
- 1.2.2 The terms of reference of the Audit Committee, as set out in the guidance, are divided into three areas, audit activity, corporate governance framework and accounts, and are as follows:

**Audit activity**

1. To consider the Director of Finance's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.
2. To consider summaries of specific internal audit reports as requested.
3. To consider reports dealing with the management and performance of the providers of internal audit services.
4. To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
5. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
6. To consider specific reports as agreed with the external auditor.
7. To comment on the scope and depth of external audit work and to ensure it gives value for money.
8. To liaise with the Audit Commission over the appointment of the council's external auditor.
9. To commission work from internal and external audit.

**Corporate governance framework**

10. To maintain an overview of the council's constitution in respect of contract procedure rules, financial procedure rules and codes of conduct and behaviour.
11. To review any issue referred to it by the chief executive or a chief officer or any council body.
12. To monitor the effective development and operation of risk management and corporate governance in the council.
13. To monitor council policies on ['Raising Concerns at Work'] and the anti-fraud and anti-corruption strategy and the council's complaints procedure.
14. To oversee the production of the authority's statement on internal control and to recommend its adoption.

15. To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
16. To consider the council's compliance with its own and other published standards and controls.

### **Accounts**

- 17 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
18. To consider the external auditor's report to those charged with governance on issue arising from the audit of the accounts.

## **1.3 Audit Activity**

- 1.3.1 The Audit Committee have continued to be involved in the audit process and were asked to consider and endorse the audit plan for 2008/09. This plan formed the basis for the internal audit coverage to be achieved in that year.
- 1.3.2 During the year the Committee were regularly given updates in summary form of the work carried out by the Internal Audit Section and debated issues arising from the information arising from the summaries. All of the summaries gave the audit opinion on the level of assurance as evidence for an overall opinion of the internal controls of the Council. The topic areas have included the main accounting systems as well as topics such as post opening. There were only three minimal assurance opinions given and these related to Development Contribution, Court Costs and Housing. With Development Contributions there were three high priority recommendations made and for Court Costs there was one High Priority recommendation made and two medium priority recommendations made. The action plans for these audits were returned agreeing the recommendations and confirming that they had been implemented. The Housing investigation final report has only recently been issued and contained twenty-five recommendations. A summary of this audit report is contained in the audit update report to this Committee.
- 1.3.3 A majority of the audit opinions given were either High or Substantial giving a high level of audit assurance overall. The details of audit report opinions was contained within the Chief Internal Auditor's annual report presented to the Audit Committee in April.

- 1.3.4 At the year end a report was provided to Members giving a summary of the audit performance including the outcomes of recommendations made and the quality of service provided as determined by feedback from audit questionnaires.
- 1.3.5 The Internal Audit Section operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government. Members have received a previous report of a self assessment against this Code by the Chief Internal Auditor.
- 1.3.6 This year a peer review has been carried out by Internal Audit staff from Gravesham Borough Council and the outcome of this review is in a separate paper to this Committee.
- 1.3.7 Besides being informed of Internal Audit matters, the Audit Committee became the conduit for the Council's external auditors to provide assurance on the results of their inspections. The Audit Commission have shown a commitment to the Committee by having a presence at every meeting and participating in the debates where appropriate.

#### **1.4 Corporate Governance Framework**

- 1.4.1 The Committee have taken an active part in the ongoing promotion of Corporate Governance.
- 1.4.2 In order to continually promote a Corporate Governance culture within the Council the following documents are reviewed annually: -
- Anti-Fraud Policy
  - Benefits Anti-Fraud Policy
  - Confidential Reporting Code
  - Risk Management Strategy

This Committee has considered all of these documents prior to recommending their endorsement by the responsible bodies as set out in the Council's Constitution.

- 1.4.3 Members have been informed on any matters arising from concerns raised using the Confidential Reporting Code and their subsequent outcome.
- 1.4.4 As part of the Risk Management process Members were informed regularly on the progress of the outcome of insurance claims against the Council and the actions arising to reduce the likelihood of similar claims arising.
- 1.4.5 Members were informed of the suggested changes in the Risk Management process following a review by Zurich Municipal. Members were also updated on how the Risk Management process was updated.

- 1.4.6 Members have also been informed on the Risk Register processed used to manage risks within sections.

## **1.5 Accounts**

- 1.5.1 The Audit Committee reviewed the annual statement of accounts prior to their presentation to Cabinet and Council.
- 1.5.2 The Committee also received the external auditor's report on issues arising from the audit of the accounts.

## **1.6 Statement on Internal Control**

- 1.6.1 The information provided to the Audit Committee during the year enabled them not only to meet their purpose as set out in the CIPFA Guidance but it also enabled them to have an informed opinion when endorsing the Statement on Internal Control.
- 1.6.2 This document is the main supporting document to the accounts for the Council to make a declaration that it has an adequate internal control system, adequate risk management processes and is complying with proper accounting practices.

## **1.7 Training**

- 1.7.1 Members of the Audit Committee have continued to receive training. Presentations have been given on "Understanding Local Government Finance" and the "Risk Management Process".
- 1.7.2 In addition some of the Members of the Audit Committee attended the Kent Audit Group annual audit conference.

## **1.8 Changes in Audit Commission Personnel**

- 1.8.1 The Audit Commission have undergone some rotational changes in the personnel dealing with the Council. Andy Mack is now the District Auditor with Trevor Greenlee as the Audit Manager.
- 1.8.2 Both have attended meetings of this Committee and have taken an active part in answering questions raised by Members.

## **1.9 Legal Implications**

- 1.9.1 There is no legal requirement to have an Audit Committee.

## **1.10 Financial and Value for Money Considerations**

- 1.10.1 The formation of the Audit Committee has enabled there to be one central Committee for all matters relating to Audit and Corporate Governance to take place.

### **1.11 Risk Assessment**

- 1.11.1 The Council is subject to an annual review against the Key Lines of Enquiry. Not having an Audit Committee would restrict the scoring potential of the Council and could lead to a reduced performance assessment.
- 1.11.2 The Audit Committee plays an important role in ensuring that an adequate system of internal control and risk management exists within the Council.

### **1.12 Summary**

- 1.12.1 The Audit Committee has satisfied the objective of providing an additional independent level of assurance.
- 1.12.2 It has also provided a focal point for all matters of Corporate Governance to be discussed and has raised the profile of Risk Management within the organisation.

### **1.13 Recommendation**

- 1.13.1 Members are asked to note and endorse the contents of this annual report.

Background papers:

contact: David Buckley

Nil

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Chief Internal Auditor

Mark Rhodes  
Chairman of the Audit Committee