

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

14 April 2014

Report of the Chair of the Audit Committee

Part 1- Public

Matters for Recommendation to Council

1 AUDIT COMMITTEE ANNUAL REPORT

Summary

This report is produced to inform Council on how the Audit Committee has provided those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. It is recommended that the Audit Committee agree that this report is presented to Council to support this assurance.

1.1 Introduction

- 1.1.1 The Accounts & Audit (England) Regulations 2011 (2011 No. 817) impose a responsibility on a local authority “*for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk*”
- 1.1.2 The Chartered Institute of Public Finance & Accountancy (CIPFA) sets out the role of Audit Committees in their Practical Guidance for Local Authorities 2013. This states that “*the purpose of the Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.*”
- 1.1.3 Membership of the Audit Committee comprises seven Members. The Committee has four meetings each year at which reports submitted by Council Officers and the External Auditors are considered. By consideration of these reports and matters raised within them it is considered that the Audit Committee fulfils the core functions of an Audit Committee as set out in the CIPFA Guidance and is able to give independent assurance to the Council to meet the requirements of the Accounts & Audit Regulations.

1.1.4 The core functions of the Audit Committee are dealt with in the following paragraphs.

1.2 Assurance Statements

1.2.1 The Audit Committee is required to consider the contents of the Annual Governance Statement (AGS) which took place in April 2013 under the leadership of the previous Chair.

1.2.2 The Council has a Local Code of Corporate Governance that sets out how the Council will comply with the principles of the CIPFA/SOLACE (Society of Local Authority Chief Executives) "Framework for Delivering Good Governance in Local Government". This Local Code of Corporate Governance is reviewed regularly and presented to the Audit Committee for endorsement.

1.2.3 The AGS explains how the Council complies with the Local Code of Corporate Governance and the Accounts & Audit Regulations.

1.2.4 Part of the AGS gives updates on emerging issues and identifies impacts in the future of these issues as well as setting out action taken to enhance the overall corporate governance framework.

1.2.5 The AGS is supported by signed Assurance Statements produced by Chief Officers and supporting evidence. A copy of the self-assessment document was presented to the Audit Committee of April 2013 to give evidence of the approach adopted.

1.2.6 In the same Audit Committee meeting there was confirmation from both Management Team and Audit Committee that the Council had complied with International Standards on Auditing.

1.2.7 The Audit Committee considered the content of the AGS and supporting evidence before it was recommended to be approved by the General Purposes Committee to accompany the Statement of Accounts.

1.2.8 The Local Code of Corporate Governance was reviewed and revised in June 2013 prior to recommendation for adoption by Council. This will be used as the basis for the AGS relating to 2013/14.

1.3 Internal Audit Function

1.3.1 The Audit Committee has a role in relation to the authority's Internal Audit functions to: -

- Oversee its independence, objectivity, performance and professionalism
- Support the effectiveness of the internal audit process
- Promote the effective use of internal audit within the assurance framework

- 1.3.2 The Audit Committee received a number of reports to oversee the role of the Internal Audit function.
- 1.3.3 In April 2013, the Audit Committee was presented with an interim report from the Chief Internal Auditor as a summary of supporting evidence to the AGS. This report gave the Chief Internal Auditor's opinion that the Council had maintained an adequate and effective internal control environment.
- 1.3.4 The annual audit plan for 2013/14 was presented to the Audit Committee and they were able to consider the content prior to recommending approval.
- 1.3.5 The Audit Committee is required to consider the effectiveness of Internal Audit on an annual basis. This review was based upon evidence produced and the view of Management Team. Based upon this evidence and the reports of Internal Audit reported upon during the year it was concluded that effectiveness of Internal Audit for 2012/13 was good.
- 1.3.6 The Audit Committee was given a report in June 2013 on the work completed by Internal Audit in the previous year that detailed how resources had been used. The report also covered a number of performance measures to assist the Audit Committee to assess the performance and effectiveness of the function.
- 1.3.7 The Internal Audit Charter is a key document in the delivery of Internal Audit setting out the purpose, authority and responsibilities of the service. Following the issue of the Public Sector Internal Auditing Standards (PSIAS) by CIPFA an exercise was undertaken to assess the Internal Audit section against the new standards. This identified a number of areas requiring changes in order to comply. These changes were reported to Members in October 2013 and one outcome was the approval of a revised Internal Audit Charter.
- 1.3.8 The Internal Audit Charter gives the Chief Internal Auditor the right to raise issues directly with the Chair of the Audit Committee if considered necessary. This would only occur in exceptional circumstances where the Chief Internal Auditor considered that the Chair of the Audit Committee needed to be made aware of significant assurance concerns. There have not been any instances where this has been considered necessary.
- 1.3.9 Throughout the year the Audit Committee received a number of reports updating Members of the progress of work carried out by Internal Audit against the Audit Plan. These reports informed the Audit Committee of the auditor's opinion on the audit undertaken and gave additional information where a red opinion (evidence of significant non-compliance) was given.

1.4 Risk Management Arrangements and Control Environment

- 1.4.1 The Audit Committee is required to consider the effectiveness of the authority's risk management arrangements and the control environment. The Members are required to review the risk profile for the organisation and seek assurances that

action is being taken on risk-related issues, including partnerships with other organisations.

- 1.4.2 The risk profile for the Council is undertaken as part of the audit needs assessment to identify those areas where Internal Audit is most effective.
- 1.4.3 The Risk Management Strategy is the framework for setting out the responsibilities for ensuring that a sound risk management process is in place. The strategy is reviewed by the Audit Committee on an annual basis and this review took place in June 2013 when the current strategy was considered fit for purpose and it was recommended to Council that it would be adopted again.
- 1.4.4 The Risk Management Strategy requires managers to carry out a review of their operational registers every six months. The outcome of this process is reported to Members and this will include specific reference to any risks that are scored in the high risk area together with an explanation of steps taken to manage the risk.
- 1.4.5 The strategy states that all Members would receive risk management training during their four year term of office. The Committee considered that this should take place during the current cycle to accommodate new Members. This training was held on Monday 17 January 2013 with a total attendance of twenty Members of which three were Members of the Audit Committee.
- 1.4.6 The Insurance Officer maintains a record of all claims made against the Council which are reported to the Audit Committee on a regular basis. These reports also inform Members of the steps being taken to minimise similar claims being made against the Council.
- 1.4.7 All reports to Council require a risk assessment of the issues involved to be reported as part of the consideration of the report.

1.5 Assurance Framework and Planning

- 1.5.1 The assurance framework is the overall process that provides evidence to support the AGS. The Audit Committee has a responsibility to understand what assurance is available to support the AGS.
- 1.5.2 The AGS was presented to Members at the meeting of April 2013. The supporting evidence to the AGS consisted of a document setting out the areas of the assurance framework to be considered with an explanation of evidence that supported the conclusions of the AGS.

1.6 Value for Money and Best Value

- 1.6.1 One specific area for the Audit Committee should be consideration of the external auditor opinion on value for money as set out in the codes of audit practice. In addition the Audit Committee should consider what other assurances are available

in relation to identified value for money risks and highlight areas for improvement. (CIPFA Audit Committee Guidance).

- 1.6.2 The External Auditors, Grant Thornton, produced their Annual Audit Letter relating to the year ended 31 March 2013 which was presented to the Audit Committee at their meeting of January 2014.
- 1.6.3 The report concluded that the external auditor was satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.
- 1.6.4 As part of the embedded system for achieving value for money all Council reports contain a section where value for money is considered.

1.7 Countering Fraud and Corruption

- 1.7.1 The Audit Committee role is defined as having an oversight of the strategy to counter fraud and to assess whether or not it meets recommended practice and standards.
- 1.7.2 The Audit Committee is responsible for the review of the policies relating to countering fraud and corruption. In June 2013 it reviewed the "Whistleblowing Charter" and recommended that it was endorsed by the General Purposes Committee. A further review and minor amended version was considered in January 2014 which was also recommended for endorsement by the General Purposes Committee.
- 1.7.3 In the meeting of January 2014 the anti-fraud policies were reviewed including a separate policy for the Council Tax Reduction Scheme; these were recommended for approval by Council.
- 1.7.4 The Audit Committee also received an update on the progress of the National Fraud Initiative results in October 2013.
- 1.7.5 The Audit Commission issued the "Protecting the Public Purse" report in December 2013 which was reported to the Audit Committee in January 2014. The Audit Committee was given a copy of the checklist contained within the report for further consideration.
- 1.7.6 The "Whistleblowing Code" requires the Audit Committee to be informed of the outcome of any investigations arising from concerns raised under it. However, there were no issues raised during this period so there have not been any reports submitted.

1.8 External Audit

- 1.8.1 The Audit Committee should receive all reports from external auditors and monitor action to be taken that arises from them.
- 1.8.2 The Audit Committee has received copies of all external auditor reports during the year and has been able to consider the content. The external auditors provide a representative to all Audit Committee meetings where the Audit Committee is able to raise questions regarding the content of reports.

1.9 Financial Reporting

- 1.9.1 Local Authority accounts are produced in line with guidance set out by CIPFA. The role of the Audit Committee with regard to these financial statements is not one of detailed knowledge of this guidance but is more aligned to focus on financial reporting and financial governance rather than on the wider issues of spending and performance.
- 1.9.2 The CIPFA Guidance identifies areas that the Audit Committee should be concerned with as follows: -
- reviewing the explanatory foreword to ensure consistency with the statements and the financial challenges and risks facing the authority in the future
 - reviewing whether the foreword is readable and understandable by a lay person
 - identifying the key messages from each of the financial statements and evaluating what that means for the authority in future years
 - monitoring trends and reviewing for consistency with what is known about financial performance over the course of the year
 - reviewing the suitability of accounting policies and treatments
 - seeking explanations for changes in accounting policies and treatments
 - reviewing major judgemental areas, e.g. provisions
 - seeking assurances that preparations are in place to facilitate the external audit.
- 1.9.3 The Audit Committee received the Statement of Accounts at the meeting of 17 June 2013. This report gave the Audit Committee assurance that the accounts were presented in compliance with required legislation and best practice guidance. Following consideration of the accounts and a detailed report giving evidence of how compliance is achieved the Audit Committee agreed to endorse

the Statement of Accounts and supporting documents and a review of specific earmarked reserves.

1.10 Partnership Governance

- 1.10.1 The latest CIPFA Guidance identifies that the Audit Committee should review assurances over partnerships to ensure that arrangements are satisfactorily established and are operating effectively.
- 1.10.2 Although this is a new addition to previous Guidance the arrangements for significant partnerships such as the Refuse Contract have been covered as part of individual audits. The latest audit on refuse collection, recycling and street cleansing contracts was issued as a draft report in January 2014 when it was concluded that a green (expected controls are in place) level of assurance was in place when reviewing that appropriate controls exist to ensure that the refuse collection, recycling and street cleansing contracts are monitored and managed effectively to ensure that the Council's obligations are delivered.

1.11 Treasury Management

- 1.11.1 Although it is not included as a core objective of the Audit Committee the CIPFA Guidance recognises that Treasury Management scrutiny may be a function of some Audit Committees to meet the requirements of the CIPFA Treasury Management Code of Practice.
- 1.11.2 The Audit Committee considered the Treasury Management mid-year review and Annual Report for 2012/13 in their meeting of 17 June 2013.
- 1.11.3 The Committee also received regular updates on Treasury Management. At the meeting of 27 January 2014 Members of the Audit Committee approved the Treasury Management Strategy Statement and Investment Strategy for 2014/15.

1.12 Training

- 1.12.1 During the year the Chair and the Audit Committee has received training in order to assist with the understanding of the issues considered.
- 1.12.2 In September 2013 the Chair met with the Chief Internal Auditor and Audit Manager to discuss the new Public Sector Internal Audit Standards and to complete the self-assessment relating to compliance. The results of this exercise were reported to the Audit Committee in October 2013.
- 1.12.3 On 14 January 2014 all Members were invited to a Treasury Management training session.
- 1.12.4 In January 2014 the Chair of the Audit Committee attended a CIPFA Training Seminar on "Developing the Audit Committee".

1.12.5 On 27 January 2014 all Council Members were invited to attend Risk Management Training provide by Zurich Municipal who provide the Council with insurance cover.

1.12.6 On 18 March 2014 The Chair of the Audit Committee attended a Kent Audit Networking event hosted by Grant Thornton who are the Council's External Auditors.

1.13 Conclusion

1.13.1 The evidence in the preceding paragraphs explains how the Audit Committee has overseen the core functions of an Audit Committee as defined in the CIPFA Guidance.

1.13.2 The guidance identifies that the purpose of the Audit Committee is to provide those charged with governance, with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance arrangements.

1.13.3 This report provides that assurance to those charged with governance and provides evidence of how the Audit Committee has considered evidence to support that enables the Committee to provide the required assurance as set out in the CIPFA Audit Committee Guidance.

1.14 Legal Implications

1.14.1 The Audit Committee role is based upon the CIPFA Guidance and meets the requirements of the Accounts & Audit Regulations 2011.

1.15 Financial and Value for Money Considerations

1.15.1 The Audit Committee has a role considering the external opinion on value for money. This has been undertaken as outlined in section 1.6 of this report.

1.16 Risk Assessment

1.16.1 The Audit Committee consideration of risk assessment is covered in section 1.4 of this report.

1.17 Equality Impact Assessment

1.17.1 No issues were identified.

1.18 Recommendations

1.18.1 That Members of the Audit Committee consider this report and recommend that it is presented to Council to provide independent assurance to those charged with governance on the adequacy of the risk management framework, the internal

control environment and the integrity of the financial reporting and annual governance processes.

Background papers:

contact: Councillor V. Branson

CIPFA Audit Committee Guidance 2013

Councillor V. Branson
Chair of Audit Committee

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	This report provides assurance to Council on internal frameworks.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	This report provides assurance to Council on internal frameworks.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		N/A

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.