

# TONBRIDGE & MALLING BOROUGH COUNCIL

## AUDIT COMMITTEE

01 April 2019

### Report of the Chair of the Audit Committee

#### Part 1- Public

#### Matters for Recommendation to Council

#### 1 AUDIT COMMITTEE ANNUAL REPORT

**This report is produced to inform Council on how the Audit Committee has provided 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 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 2018. 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 The Audit Committee comprises nine Members. The Committee has four meetings each year at which reports submitted by Officers and the External Auditor 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 (England) 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 In April 2018 the Committee endorsed the revised Local Code of Corporate Governance that sets out how the council will comply with the principles of the 2016 CIPFA/SOLACE (Society of Local Authority Chief Executives) “Delivering Good Governance in Local Government Framework 2016”.
- 1.2.2 The Committee is required to consider and approve the contents of the Annual Governance Statement (AGS), which took place in July 2018. The AGS explains how the council complies with the Local Code of Corporate Governance and the Accounts & Audit Regulations.
- 1.2.3 The AGS is supported by signed Assurance Statements provided by members of the core Management Team and the three statutory officers and is prepared by way of a self-assessment questionnaire and supporting evidence. No significant concerns were raised as a result of this exercise.
- 1.2.4 At the April 2018 Audit Committee meeting there was confirmation from both Management Team and Audit Committee that the council had complied with International Standards on Auditing.

## **1.3 Internal Audit Function**

- 1.3.1 The Audit Committee has a role in relation to the council’s Internal Audit function 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 The Annual Internal Audit and Fraud Plan for 2018/19 was presented to the Audit Committee in April 2018 and they were able to consider the content prior to recommending approval.
- 1.3.4 In July 2018 the Audit Committee was presented with a report from the Chief Audit Executive as a summary of supporting evidence to the AGS. This report gave the Chief Audit Executive’s opinion that the council had maintained an adequate and effective internal control environment.
- 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. A report was submitted to the Audit Committee in July 2018 which reported that Management Team opinion on the effectiveness of Internal

Audit was "Good". Members considered the findings of this review and endorsed the opinion that the effectiveness of Internal Audit was "Good".

- 1.3.6 It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that periodic self-assessments are conducted to evaluate conformance with the PSIAS Code of Ethics and Standards. A self-assessment was undertaken in 2018 which established that we continue to generally conform to the Code of Ethics and Standards that constitute the PSIAS. Some minor areas for development were identified that relate to changes made to the Standards in April 2017 where existing processes should be documented/formalised; only two areas were identified for specific action and therefore assessed as Partially Conforms. The action plan to address these two areas was reported to Committee in October 2018.
- 1.3.7 The Audit Committee was given a report in July 2018 on the work completed by Internal Audit and Fraud 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.
- 1.3.8 The Internal Audit Charter is a key document in the delivery of Internal Audit setting out the purpose, authority and responsibilities of the service which was subject to review at the January 2019 meeting of the Audit Committee.
- 1.3.9 The Internal Audit Charter gives the Audit and Assurance Manager (as Chief Audit Executive) the right to raise issues directly with the Chair of the Audit Committee if considered necessary. This would only occur in circumstances where the Audit and Assurance Manager 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.
- 1.3.10 Throughout the year the Audit Committee received a number of reports updating Members of the progress of work carried out by Internal Audit and Fraud against the Annual Plan. These reports informed the Audit Committee of internal audit's opinion on the audits undertaken and gave additional information where a limited or no assurance was given.

## **1.4 Audit Committee Responsibilities**

- 1.4.1 The responsibilities of the Audit Committee are set out in the Constitution of the Council.

## **1.5 Risk Management Arrangements and Control Environment**

- 1.5.1 The Audit Committee is required to consider the effectiveness of the council's risk management arrangements and the control environment. The Members are required to review the risk profile for the council and seek assurances that action is being taken on risk-related issues, including partnerships with other organisations.

- 1.5.2 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.
- 1.5.3 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 January 2019.
- 1.5.4 The Risk Management Strategy requires Management Team to escalate any relevant risks to the Strategic Risk Register for reporting to this Committee biannually with changes highlighted. In 2018/19 the Committee received the Strategic Risk Register in July 2018, and were asked to note the emergence of a new strategic risk concerning the procurement of the waste services contract, and in January 2019.
- 1.5.5 The strategy states that Audit Committee Members will receive risk management training during their term of office. This training was last undertaken in April 2017 with further training planned for after the May 2019 Local Elections.
- 1.5.6 The Insurance Officer maintains a record of all claims made against the council which are reported to the Audit Committee half-yearly. These reports also inform Members of the steps being taken to minimise similar claims being made.
- 1.5.7 All reports to Council require a risk assessment of the issues involved to be reported as part of the consideration of the report.

## **1.6 Assurance Framework and Planning**

- 1.6.1 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.
- 1.6.2 The AGS was presented to Members at the meeting of July 2018. 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.

## **1.7 Value for Money and Best Value**

- 1.7.1 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).
- 1.7.2 The External Auditor, Grant Thornton, produced their Annual Audit Letter relating to the year ended 31 March 2018 which was presented to the Audit Committee at their meeting of October 2018.

- 1.7.3 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 2018.
- 1.7.4 As part of the embedded system for achieving value for money all Council reports contain a section where value for money is considered.

## **1.8 Countering Fraud, Bribery and Corruption**

- 1.8.1 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. In March 2019 an independent review of the fraud team was undertaken, results will be reported to the July 2019 Committee as part of the Annual Report.
- 1.8.2 The Audit Committee is responsible for the review of the policies relating to countering fraud, bribery and corruption and anti-money laundering. In January 2019 it reviewed the Whistleblowing Policy and recommended that it was endorsed by the General Purposes Committee. In the same meeting the anti-fraud policies were reviewed and, subject to any amendments, subsequently approved.
- 1.8.3 The Audit Committee also receives updates on the progress of the National Fraud Initiative results and other work undertaken by the Fraud Team as part of the audit and fraud updates to every meeting. The work of the Fraud Team reported to the Committee in 2018/19 to March 12<sup>th</sup> 2019 included amounts to be repaid to the Council due to fraud and error of £71,387.68 with an increased annual liability of £76,799.67; a total of 109 civil penalties were issued in the amount of £7,630.
- 1.8.4 The Whistleblowing Policy requires the Audit Committee to be informed of the outcome of any investigations arising from concerns raised under it. No such matters have been drawn to the attention of the Committee in the period covered by the report.

## **1.9 External Audit**

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

## **1.10 Financial Reporting**

1.10.1 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.

1.10.2 The CIPFA Guidance identifies areas that the Audit Committee should be concerned with as follows: -

- reviewing the narrative report to ensure consistency with the statements and the financial challenges and risks facing the council in the future
- reviewing whether the narrative report 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 council 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.

1.10.3 The Audit Committee received the Statement of Accounts at the meeting of July 2018. 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. This was accompanied by the Audit Findings Report from the external auditor on the outcome of the audit of the accounts, and subsequently they issued an unqualified audit opinion on the financial statements and value for money conclusion.

## **1.11 Partnership Governance**

1.11.1 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.

1.11.2 The arrangements for significant partnerships are covered as part of the audit planning process and covered within individual audits as appropriate. In 2018/19 there was one substantial new partnership entered into; the South West Kent Waste Partnership (comprising Tonbridge and Malling Borough Council, Tunbridge Wells Borough Council and Kent County Council). This was included in the 2018/19 Audit Plan as a watching brief with any issues/concerns to be escalated to the Audit Committee as appropriate, this escalation was not required.

## **1.12 Treasury Management**

1.12.1 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.

1.12.2 The Committee receive regular updates on Treasury Management including the treasury management mid-year review and annual report. At the meeting of January 2019 Members of the Audit Committee reviewed the Treasury Management Strategy Statement and Investment Strategy for 2019/20 and recommended it be adopted by the Cabinet and full Council.

## **1.13 Training**

1.13.1 The Chair and Members of the Audit Committee receive in-house and or external training at varying intervals to assist with the understanding of the issues considered.

1.13.2 Training needs identified include Treasury Management and Risk Management and these commenced with Risk Management training in April 2017. Further training needs identified are addressed as and when required. The next round of training will be undertaken after the May 2019 Local Elections to ensure any new Members of the Committee are included.

## **1.14 Conclusion**

1.14.1 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.

1.14.2 As stated at 1.1.2 the CIPFA Guidance identifies that the purpose of the Audit Committee 'is to provide 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.' This report acts to provide that independent assurance to Council.

### **1.15 Legal Implications**

The Audit Committee role is based upon the CIPFA Guidance and meets the requirements of the Accounts & Audit (England) Regulations.

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

1.16.1 The Audit Committee has a role considering the external opinion on value for money. This has been undertaken as outlined in section 1.7 of this report.

### **1.17 Risk Assessment**

1.17.1 The Audit Committee consideration of risk assessment is covered in section 1.5 of this report.

### **1.18 Equality Impact Assessment**

1.18.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

### **1.19 Recommendations**

1.19.1 That Members of the Audit Committee consider this report and recommend that it is presented to Council to provide 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.

Background papers:

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Nil

Councillor Vivian Branson  
Chair of the Audit Committee