

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

07 April 2015

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 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 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 2014.
- 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 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.
- 1.2.6 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 2014 prior to recommendation for adoption by Council. This will be used as the basis for the AGS relating to 2014/15.

1.3 Internal Audit Function

- 1.3.1 The Audit Committee has a role in relation to the authority'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 In April 2014 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 Internal Audit Plan for 2014/15 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. A report was submitted to the Audit Committee Members in June 2014 by the Director of Finance & Transformation 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 The Audit Committee was given a report in June 2014 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 which was subject to review at the January 2015 meeting of the Audit Committee.
- 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 Audit Committee Responsibilities

- 1.4.1 The responsibilities of the Audit Committee are set out in the Constitution of the Council. As the Audit Committee has been a relatively new Committee there were a number of areas where there were overlaps of responsibility with other Committees. This has frequently led to duplication of effort and delayed process.
- 1.4.2 The Council meeting of 17 February 2015 agreed to a number of Constitutional changes to reflect the alignment of the Audit Committee to new CIPFA guidance

on the role of the Audit Committee. This has led to the Audit Committee having areas of delegated responsibility transferred to them.

1.5 Risk Management Arrangements and Control Environment

- 1.5.1 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.
- 1.5.2 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 June 2014 when the current strategy was considered fit for purpose and it was recommended to Council that it would be adopted again.
- 1.5.4 The Risk Management Strategy requires managers to carry out a review of their operational registers every six months. This process did not result in any material concerns that required reporting to Members.
- 1.5.5 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.
- 1.5.6 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.
- 1.5.7 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 April 2014. 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 Auditors, Grant Thornton, produced their Annual Audit Letter relating to the year ended 31 March 2014 which was presented to the Audit Committee at their meeting of January 2015.
- 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 2014.
- 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 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.
- 1.8.2 The Audit Committee is responsible for the review of the policies relating to countering fraud and corruption. In June 2014 it reviewed the "Whistleblowing Charter" and recommended that it was endorsed by the General Purposes Committee.
- 1.8.3 In the meeting of January 2015 the anti-fraud policies were reviewed; these were recommended for approval by Council.
- 1.8.4 The Audit Committee also received an update on the progress of the National Fraud Initiative results in October 2014, together with a checklist for elected members to help them assess their authority's performance in relation to NFI.
- 1.8.5 The "Whistleblowing Charter" 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 external auditors 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 auditors provide 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 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.

1.10.3 The Audit Committee received the Statement of Accounts at the meeting of 16 June 2014. 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.

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.

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 16 January 2015 Members of the Audit Committee approved the Treasury Management Strategy Statement and Investment Strategy for 2015/16.

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 On 20 November 2014 The Chair of the Audit Committee attended a Kent Audit Networking event hosted by the Council's External Auditors.

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 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.
- 1.14.3 This report provides independent assurance from those charged with governance to the Council on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.

1.15 Legal Implications

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

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

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Chair of Audit Committee