

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

#### **MINUTES OF THE MEETING HELD ON 21 MARCH 2016**

**Present:** Councillor McLoughlin (Chairman) and Councillors Butler, Daley, Mrs Gooch, Perry, Mrs Riden (Parish Representative), Ross and Vizzard

**Also Present:** Matt Dean and Darren Wells of Grant Thornton (External Auditor)

61. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Butcher (Parish Representative) and Clark.

62. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

63. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

64. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

65. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

66. EXEMPT ITEMS

**RESOLVED:** That the items on the agenda be taken in public as proposed.

67. MINUTES OF THE MEETING HELD ON 18 JANUARY 2016

**RESOLVED:** That the Minutes of the meeting held on 18 January 2016 be approved as a correct record and signed.

68. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 18 JANUARY 2016

Minute 58 – Treasury Management Strategy 2016/17 (Operational Risk Assessment of the Budget)

In response to a question by a Member, the Head of Finance and Resources said that the operational risk assessment of the budget would be reported to the next meeting of the Committee to enable Members to take a view on the completeness of the assessment and the soundness of the planned mitigations.

69. INTERNAL AUDIT PLAN 2016/17

The Committee considered the report of the Head of Audit Partnership setting out the one-year Internal Audit Operational Plan for 2016/17 and updating the longer-term Plan up to 2018/19.

The report was presented by the Deputy Head of Audit Partnership who advised the Committee that:

- The basis of the Plan had changed in 2015/16 from a project to a days-led approach which had enabled a much greater responsiveness and flexibility in how the audit service was delivered. At Maidstone in 2015/16, this enabled the Internal Audit team to provide support in the development of the Council's risk management approach.
- The restructuring of the Audit Partnership during 2015/16 meant that the team could deliver more productive days at no additional cost. The total audit allocation for the Council in 2016/17 was 500 days, an increase of 30 days from the 2015/16 level.
- The Public Sector Internal Audit Standards required the Head of Audit Partnership to explicitly draw the attention of Members to his assessment of whether the level of resources available was sufficient to fulfil responsibilities to deliver the Plan.
- Having regard to the increase in the general risk environment in which the Council continued to operate, the Council's commercialisation agenda and willingness to take on or support more ambitious projects to assist in the delivery of its priorities, and the introduction of a new Corporate Leadership team, it was the Head of Audit Partnership's assessment that the level of resources available was sufficient in both quantity and capability to fulfil responsibilities.
- There were a number of amendments to the Plan as circulated including:

Addition of an operational review of the adequacy of the contract monitoring arrangements at the Hazlitt Theatre (15 days);

Reducing the number of days allocated for a review of the effectiveness of measures to monitor and enforce compliance with HR policies from 10 to 8; and

Reducing the number of days allocated for a review of compliance with policy on awarding discretionary housing payments from 15 to 10.

- These amendments would give rise to the total audit allocation for Maidstone of 500 days.
- In 2017/18 a full risk assessment would be undertaken for the remainder of the Plan, and it was anticipated that the audit days allocated would be reallocated according to the assessment outcomes to ensure that resources were prioritised effectively.

In response to questions by Members, the Deputy Head of Audit Partnership confirmed that:

- The revised version of the Plan would be circulated to all Members of the Committee and re-published online.
- The increase in the number of Plan days allocated to risk management support from 20 days to 40 days reflected the expansion of the audit role in this area of service delivery which was recognised in the revised Internal Audit Charter.
- The increase in the number of Plan days allocated to counter fraud support from 20 days to 40 days reflected the time spent by the Internal Audit team in this area in 2015/16, particularly in terms of the National Fraud Initiative, and there was much more of an expectation that the team would take on a validation role. The increase also reflected the significant changes taking place within the Council's counter fraud arrangements and the availability of skills and expertise within the Internal Audit team to support that.
- The Annual Internal Audit report would include detail on how the Audit Plan days had been used over the year.
- In terms of compiling the Audit Plan and liaison with the External Auditor, there was a protocol in place setting out how Internal and External Audit communicated and worked together. In the past the Internal Audit team undertook work that the External Auditor placed reliance on, but this was less so now as the scopes and remits of Internal and External Audit were different.
- The unallocated contingency of zero for 2017/18 was indicative at this stage. The Internal Audit team provided assurance, consultancy services and advice. The aim was to include an unallocated contingency of 10% within the Plan to provide the flexibility to react to consultancy and advisory requests. A full risk assessment for the Plan would be undertaken in 2017/18 and contingency provision would be made at that stage.

**RESOLVED:**

1. That the Internal Audit Operational Plan for 2016/17, attached as Appendix I to the report of the Head of Audit Partnership, be endorsed.
2. That the longer term Plan up to 2018/19, attached as Appendix II to the report of the Head of Audit Partnership, and which will be subject to annual review and refresh, be noted.
3. That the view of the Head of Audit Partnership that the level of resources available is sufficient to deliver the Head of Audit Opinion for 2016/17 be noted.

70. INTERNAL AUDIT CHARTER 2016/17

The Committee considered the report of the Head of Audit Partnership setting out the revised Internal Audit Charter 2016/17.

The Deputy Head of Audit Partnership presented the report and it was noted that:

- The 2015/16 Charter was approved by the then Audit Committee in March 2015, and was scheduled to be reviewed and, if necessary, updated each year.
- In addition to typographical corrections and standardisation of terminology, more substantive amendments sought to build on supplemental guidance issued by the Institute of Internal Auditors acknowledging that Internal Audit services might often possess the skills, knowledge and expertise to successfully take up broader roles within an organisation, often referred to as "second line of defence" roles.
- At present Internal Audit did not occupy any roles that comprised "second line of defence" functions, but the revised Internal Audit Charter addressed the safeguards that would operate if the Audit Partnership were to play a more prominent role in risk management and counter fraud, including ownership of relevant corporate policies such as Whistleblowing.
- The Head of Audit Partnership was satisfied that the Partnership currently operated with the required independence and freedom from interference and that it would continue to do so, subject to the described standards, in the event of it being asked to take on further responsibilities.

In response to questions, the Committee was informed that:

- With regard to significant requests for advice, defined as those which required the purchase of additional resources or amendments to the agreed Audit Plan, the Head of Audit Partnership would consult with

the Chairman and Members of the Audit, Governance and Standards Committee before accepting the engagement to ensure that they were satisfied that it represented an effective use of resources compared to other projects. This was on the basis that it might not always be possible to wait until the next scheduled meeting of the Committee.

- The purpose of the external assessment referred to in paragraph 43 of the revised Charter was to provide independent assurance that the Partnership was operating in accordance with the Public Sector Internal Audit Standards. The most recent assessment was completed by the Institute of Internal Auditors in 2014 with the results reported to the then Audit Committee.

**RESOLVED:**

1. That the Internal Audit Charter 2016/17, attached as Appendix II to the report of the Head of Audit Partnership, be approved.
2. That the Audit Partnership's view that the Partnership is operating with sufficient independence and freedom from managerial interference to fulfil its responsibilities in line with Public Sector Internal Audit Standards, and will continue to do so, be noted.

71. **AUDIT COMMITTEE UPDATE - MARCH 2016**

The Committee considered the report of the External Auditor on the progress to date against the 2015/16 Audit Plan. The report also included a summary of emerging national issues and developments that might be relevant to the Committee together with a number of challenge questions in respect of these emerging issues.

In response to questions, it was explained that:

- With regard to changes in accounting for the Highways Network Asset from 2016/17, CIPFA expected that the transport infrastructure assets held by district councils/non-highways authorities would be scoped out of the new requirements as assets were unlikely to form a single interconnected network. However, district councils would need to consider the nature of their transport infrastructure assets to assure themselves and evidence that their transport infrastructure assets were not part of an interconnected network and were, therefore, outside of the scope of the requirements.
- This year local authorities would need to estimate a provision for unlogged National Non-Domestic Rate appeals, but as any unlogged appeals as at 31 March 2016 would only be backdated to 1 April 2015 this might not be material, and there was already contingency provision for existing appeals.

**RESOLVED:** That the External Auditor's update report, attached as Appendix A to the report of the Head of Finance and Resources, be noted.

72. EXTERNAL AUDITOR'S AUDIT PLAN 2015/16

The Committee considered the External Auditor's Audit Plan for 2015/16. It was noted that:

- The Plan covered the External Auditor's understanding of the environment the Council was operating in, the challenges and opportunities the Council was facing, the concept of materiality and how the audit would be undertaken against that concept, the significant and other risks identified and the work which would be undertaken to mitigate those risks, the External Auditor's responsibility to reach a Value for Money conclusion and the basis on which that would be reached, the need to undertake a risk assessment and then confirm the significant risks that the External Auditor would respond to (and the Audit Plan would be updated to reflect this in due course) and the results of interim audit work.
- The anticipated audit fee was £64,385 which covered the audit of the financial statements and the grant certification work.

In response to questions, the Head of Finance and Resources/representatives of the External Auditor explained that:

- It was understood that discussions regarding the devolution agenda in Kent were taking place at the Kent Leaders' Group supported by the Chief Executives.
- The External Auditor (Grant Thornton) would be undertaking testing of key controls in relation to the valuation of the Pension Fund net liability through the County Council. There was an agreement in place that the auditors of the district councils in Kent could rely on that work and doing it once on behalf of all involved was the most effective way of undertaking the exercise. The actuary employed by the County Council was an expert and Grant Thornton employed their own expert in that field to undertake an assessment to evaluate once only the professionalism, scope, reasonableness and assumptions made by the actuary. It was a requirement of the International Standards on Auditing that this work be undertaken each year.
- The External Auditor was not required to investigate the Pension Fund, but undertook the work to provide assurance that the valuation of the Pension Fund net liability was appropriate and that the actuary's assumptions and approach were reasonable and in line with industry practice. That was why they engaged their own expert in that field to do the work. There was no suggestion of past errors or issues in the Pension Fund/scheme operated in Kent. The External Auditor did not look at the policy on investments.
- The level of materiality used in planning and performing the audit was about 2% of the gross revenue expenditure of the Council. The concept of materiality to provide a level of assurance was well established and 2% was the standard maximum used for local

government clients. The application of the concept of materiality allowed the External Auditor to focus on key areas. As well as focusing audit effort, it also influenced the way in which the findings were reported to the Council. If the External Auditor did identify some errors in the financial statements that were cumulatively or individually above the materiality level set out in the Audit Plan, and the Council decided not to amend the statements for those errors, the External Auditor would have to qualify the accounts.

The Head of Finance and Resources then provided a brief overview of the Chancellor's business rates proposals, and said that a report on the implications for the Medium Term Financial Strategy would be submitted to the Policy and Resources Committee in due course.

**RESOLVED:** That the External Auditor's Audit Plan 2015/16, attached as Appendix A to the report of the Head of Finance and Resources, be noted.

Note: During the discussion on this item, Councillor Daley stated that he was the Vice-Chairman of the County Council's Superannuation Fund Committee.

73. DURATION OF MEETING

6.30 p.m. to 7.35 p.m.