

## Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **18<sup>th</sup> March 2014**.

### Present:

Cllr. Clokie (Chairman);  
Cllr. Link (Vice-Chairman);  
Cllrs. Michael, Shorter, Smith, Taylor.

### Apology:

Cllr. Marriott.

### Also Present:

Deputy Chief Executive, Head of Audit Partnership, Incoming Head of Audit Partnership, Audit Partnership Manager, Principal Accountant, Policy & Performance Officer, Senior Member Services & Scrutiny Support Officer.

Andy Mack, Lisa Robertson - Grant Thornton.

## 368 Minutes

### Resolved:

**That the Minutes of the Meeting of this Committee held on the 3<sup>rd</sup> December 2013 be approved and confirmed as a correct record.**

## 369 The Local Code of Corporate Governance

The Policy & Performance Officer introduced the report and advised that the Council had produced its own Local Code of Corporate Governance back in 2008. The publication of and updated CIPFA and SOLACE Delivering Good Governance Framework in late 2012, together with an acknowledgement within the 2012/13 Annual Governance Statement, made it timely for Ashford to refresh its own local code. The report summarised the changes in governance since the Council last agreed a Local Code, and the impact of this on the Council's Local Code. The report also sought agreement to an updated Local Code of Corporate Governance for 2014.

The Portfolio Holder said he welcomed the updated document and was pleased to see references in the report to the new ways the Council was operating (service delivery through trading companies etc.)

The Chairman said that paragraph 25 of the report needed to be amended to make it clear that the earlier interaction over Cabinet reports related to Cabinet Members only and not all Members.

**Resolved:**

- That (i) the changes in governance, both externally and internally, since the 2008 Local Code was agreed, be noted.**
- (ii) the new Local Code of Corporate Governance for 2014 be agreed.**

### **370 Certification of Grant Claims – Annual Report**

Mrs Robertson introduced the report which summarised Grant Thornton's overall assessment of the Council's management arrangements in respect of the certification process for 2012/13 and drew attention to significant matters in relation to individual claims.

Members asked if there was any provision to enable the auditors to decide that where errors were so minor in the overall scheme of things that there was no value in pursuing them. Considering the sums involved (errors of £26 and £727 from an overall expenditure of £84.2m) it did seem excessive that the Council had been rated as amber for accuracy of claim forms. Mrs Robertson advised that this was an area where the guidance was set by the Government and was not based on materiality or controls and any error no matter how small had to be marked as such. Mr Mack added that the External Auditors were similarly frustrated by the lack of flexibility and would be sympathetic to the Council making representations to the relevant Government department on this matter.

In response to a question about the certification fees Mrs Robertson advised that the fee was set centrally by the Audit Commission. They had set an indicative scale fee based on 2010/11 certification fees for each audited body. An additional fee variation had also been proposed and agreed with Officers to reflect the additional work that had to be undertaken on the housing benefit claim.

**Resolved:**

**That the report be received and noted.**

### **371 Annual Governance Statement – Progress on Remediating Exceptions**

The report was the latest update of progress against the areas for continued work which were included in the Annual Governance Statement agreed by the Committee in June 2013. It highlighted the following matters: - the Leader's wish that there be a refocusing of Council priorities and further cultural development to consolidate the direction that was currently set out in the business plan and Cabinet's previous position statement; the Leader's proposal for a further review of some aspects of the constitution to reinforce the principle of inclusivity and to clarify delegations; production of an Annual Report; updating the 2008 Code of Corporate Governance; and a procurement strategy review. The Policy & Performance Officer explained that following the agreement of the updated Code of Corporate Governance earlier at this

meeting, three of the five areas had now been completed, with work on the review of the constitution and the production of an annual report to continue.

**Resolved:**

**That the Committee note the progress to date on resolving the governance exceptions identified in the 2012/2013 Annual Governance Statement.**

## **372 Presentation of Financial Statements**

In accordance with Procedure Rule 9.3 Mr Relf, a local resident had applied to speak on this item and to a letter he had referred to the Council's External Auditor. He said he was concerned about the annual accounts of the Council and wanted to bring some issues that he thought were relevant to the attention of the Committee. He referred to the TV programme 'Benefits Street' and the benefits debates that were held while the series was running. He was aware that during one of the Council's benefit fraud initiative weeks 15 claimants had been picked at random and eight had been found to be incorrect (overpayment or fraudulent claims). He considered this gave an indication that benefit fraud in Ashford was approximately 50% of the total paid out yearly. Being a service provider himself, Mr Relf said he considered there was a prolific amount of fraud going on. He commented on the income of the Council's Benefit Fraud department which he thought only just covered the running costs. He also said that at the last Council meeting he had been told that 2000 people had not returned their electoral registration forms, which was a legal requirement and meant that many people would not be on the Electoral Roll, which he assumed was due to benefit fraud. Mr Relf said if recorded data was kept more up to date and correct, money could be saved on fraudulent benefit claims. He therefore said he would like to object to the Council's accounts on the grounds of departmental failures. He referred to other projects the Council was involved in when he thought more money could be made available to tackle benefit fraud in a constructive way thus making more money available to be spent on more meaningful projects for the people of Ashford. He said he was more than willing to meet with any member of the Audit Team to point out specific individuals and residences that contained omissions on the Electoral Register.

Mr Mack thanked Mr Relf for his comments. He explained that the Council's Statement of Accounts would be published around the 30<sup>th</sup> June after which Grant Thornton's audit work would take place, with a report back to this Committee in September. It was therefore not possible to accept an objection to the accounts at this stage, but he had received Mr Relf's comments in writing and he would be in touch with him at the appropriate time to address the points he had raised.

The Principal Accountant introduced the report which advised that the Council was required to follow statutory guidance for the publication of its accounts. Each year the guidance was reviewed and updated. The report looked at the impact of these updates on the Council's accounts for 2013/14. In addition, the report reviewed the lessons learnt from the accounts process for 2012/13. She also advised that the Council had completed a review of its accounting policies that would be used for the production of the statement of accounts.

A Member said he was disappointed that the non-return of related party declaration forms by Councillors was still an issue. Was it not possible to 'name and shame'? The Chairman asked to be advised of any outstanding forms before the April Council meeting so it could be mentioned when moving the Minutes. The Deputy Chief Executive said Officers would look at ways of combining data from other forms and potentially giving Members less to fill in, but advised that there were differences between this and other Interests forms.

**Resolved:**

**That the report be received and noted and the accounting policies for the 2013/14 accounts appended to the report be approved.**

### **373 Financial Statements for Year Ended 31<sup>st</sup> March 2014 – Assurance Statement**

The Deputy Chief Executive tabled a letter from Grant Thornton advising of the need for the Council's External Auditors to annually refresh their understanding of how both the Audit Committee and Management Team gained assurance over management processes and arrangements. He apologised for not circulating anything in advance of the meeting. The response to Grant Thornton needed to give a full reply to each of the points raised in their letter and would be quite similar in content to last year's response. He asked if the Committee were happy for him to draft a response, in consultation with Members by email and then return to Grant Thornton. Members said they would be happy with this approach.

**Resolved:**

**That the Deputy Chief Executive produce the Audit Committee response letter, in consultation with Committee Members.**

### **374 Strategic Risk Management – Six Monthly Update**

The report set out the current position in respect of the Council's strategic risk management arrangements.

The Chairman said that the Committee had asked that the Chilmington development be included as a standalone risk within the register, but this had not yet happened. The Deputy Chief Executive advised that the Committee's previous discussions on this had been held confidentially and as the issue was still quite sensitive it was not yet correct to include this publically within the Register. He would take advice about when was the right time, but assured the Members it would be included in the future and that Officers were discussing this and related issues and risks routinely on a weekly and sometimes daily basis.

The Committee ran through the Management Action Plans for the risks one by one and the following comments were made: -

### **Risk 1a – Economic Growth**

Noted and agreed to leave score at 4/3 (Significant/Severe).

### **Risk 1b – Mix and Quality of Housing**

Noted and agreed to leave score at 4/3 (Significant/Severe).

### **Risk 2 – Volatile Income Streams**

The proposal was to reduce this from a score of 6/3 (Very High/Severe) to 5/2 (High/Medium). The Chairman said he still had concerns over the risks associated with the Council having to borrow significant amounts of money. The Portfolio Holder said it was a question of judgment. All loans were entered into with full due diligence and the new Trading and Enterprise Board would provide extra checks and balances to those already in place. The Deputy Chief Executive said it had been his proposal to reduce this score. Whilst not denying that the financial context was difficult, or that the risk was high, the Council now had in place a number of formal and informal processes to manage the risks and whilst the Council could not change the financial context he felt there was now a better understanding of it and a clear understanding of the risks and of the actions needed, with a number already actioned. The Committee agreed to reduce the score to 5/2 (High/Medium).

### **Risk 3a – Community Demands**

Noted and agreed to leave score at 3/2 (Low/Medium).

### **Risk 3b – Consequences of Welfare Reform**

The proposal was to reduce this from a score of 4/3 (Significant/Severe) to 3/3 (Low/Severe). The Deputy Chief Executive said there was actually a good account to present here, with an awful lot of work undertaken on Council Tax Support and Welfare Reform. There was still considerable uncertainty over Universal Credit so it remained a risk, but he felt as a Council they were preparing for it well. The Portfolio Holder said the key was that the Council had been pro-active throughout which had enabled Members and Officers a better understanding of these issues and to be able to make informed decisions in the future. The Committee agreed to reduce the score to 3/3 (Low/Severe).

### **Risk 4 – Opportunities for Localism**

Noted and agreed to leave score at 3/3 (Low/Severe).

### **Risk 5 – Workforce Planning**

The proposal was to reduce this from a score of 4/3 (Significant/Severe) to 3/3 (Low/Severe) as good foundations were now set with a clear focus. In response to a question the Deputy Chief Executive advised that given the management age profile, this was chiefly about succession planning and developing a more flexible workforce with the appropriate skills and capacity to tackle a more complex future context. The Committee agreed to reduce the score to 3/3 (Low/Severe).

### **Risk 6 – Members Skills, Capacity and Experience**

The Chairman said that this was an area where he considered there were still issues. There was some discussion about the overall member training budget and whether it was sufficient and the Portfolio Holder said that the question was a fair one, but any budget should be based on need rather than simply arbitrarily

increasing it. A number of courses had been held internally, led by both Council Officers and external providers and money was available for external courses if appropriate. Plans were also already underway for the induction arrangements for the new Council in 2015. The Committee re-iterated that they would like to continue their tradition of the pre-Audit Committee briefings. Given tonight's discussion a future session of understanding risk appetite and risk management was considered useful. The Committee agreed to leave the score at 3/2 (Low/Medium)

#### **Risk 7 – Business Planning**

Noted and agreed to leave score at 4/3 (Significant/Severe).

#### **Risk 8 - Housing**

The proposal was to reduce this from a score of 4/3 (Significant/Severe) to 3/3 (Low/Severe). The Deputy Chief Executive explained that this related chiefly to the risk within the HRA of managing the debt from the significant loan the Council had taken on (relating to the statutory housing subsidy buyout), along with the impacts of welfare reform. A year ago this had been a very sizeable issue, but there were now appropriate safeguards and processes in place to manage and consider the implications of the debt for the HRA's long term business plan, including Overview & Scrutiny routinely reviewing the HRA. The Committee agreed to reduce the score to 3/3 (Low/Severe).

#### **Risk 9 – Infrastructure**

Noted and agreed to leave score at 6/3 (Very High/Severe).

#### **Resolved:**

- That (i) **the changes to the strategic risk scores in terms of 'likelihood' and 'impact' as noted above be agreed.**
- (ii) **the actions that are being taken to manage the risks as shown in the appendix to the report be noted and the Committee confirms that it is satisfied with the actions.**

### **375 Internal Audit Operational Plan 2014/15**

The Head of Audit Partnership introduced the report which set out the one year Internal Audit Operational Plan for 2014/15 and asked that the Committee review and approve the plan. He explained that the plan had been prepared in consultation with Heads of Service and there would be ongoing dialogue with them throughout the year. He also took the opportunity to introduce Rich Clarke who would be taking over as the Head of Audit Partnership from 1<sup>st</sup> April 2014 following his retirement. The Chairman welcomed Rich to Ashford and his new role.

The item was opened up for discussion and the following responses were given to questions/comments: -

- It was important External Audit could place reliance on the work of Internal Audit and that the controls work Internal Audit did ahead of the external audit work provided that assurance.

- Internal Audit did not look at the budget papers or the MTFP in any great depth. This was more for External Audit in terms of its value for money assurance, with the Cabinet, supported by the Deputy Chief Executive and the finance team responsible for ongoing management.
- It was confirmed that in the event of minimal or limited controls being found, that the Head of Service would be expected to attend the next meeting to explain what action would be taken to address the control weaknesses.
- The total of 24 audit projects in the plan was based on available auditor resources and it was important to prioritise work where the risks were higher and where they could add value.
- The number of audit days allocated to each subject in the plan was an estimate and these could vary in practice.

**Resolved:**

**That the contents of the one year Internal Audit Operational Plan 2014/15 (shown at Appendix 1 to the report) be approved.**

### **376 Internal Audit – External Quality Assessment against Public Sector Internal Audit Standards**

The Head of Audit Partnership introduced the report which set out the results of the External Quality Assessment of conformance by Internal Audit against the Public Sector Internal Audit Standards and the responses from the Incoming Head of Audit Partnership to the recommendations made by the assessors. The report provided assurance to the Committee that Internal Audit was meeting the vast majority of the standards and that full conformance could be achieved. The Head of Audit Partnership said he was pleased with the outcome. The process had involved both the Chairman and the Deputy Chief Executive and a lot of time and effort had been put in, but it was considered worthwhile and provided a good platform for the new Head of Audit Partnership and the future of Mid Kent Audit.

The Portfolio Holder said he was happy with the report and pleased to see reference to 'risk appetite' as he considered the understanding of risk would be key for the Council going forward and for its future success. It also fit well with the suggestion for a future briefing on the subject.

Continuing with the theme of risk management, the Vice-Chairman asked how the recommendation to reflect upon how this could be applied in operational areas could be taken forward in practice. The Head of Audit Partnership said in his view Heads of Service should undertake an annual risk process, perhaps discussing with staff what they wanted to achieve in a year and the risks that may impact that. It could then be kept under review throughout the year and, if done properly, needn't be bureaucratic.

The Committee considered that the results of the assessment reflected a good achievement on behalf of Internal Audit and asked that their congratulations be recorded.

**Resolved:**

**That the outcomes of the External Quality Assessment and the action that would be taken to ensure full conformance be noted.**

### **377 Internal Audit – External Audit Protocol**

The report advised that a protocol had been developed in order to set out the key principles and procedures underpinning the working relationship between Mid Kent Audit and the Council's External Auditors Grant Thornton. The protocol was attached as Appendix 1 to the report.

**Resolved:**

**That the protocol between Internal Audit and External Audit be noted.**

### **378 Grant Thornton's Audit Plan and Audit Committee Update**

Mr Mack introduced the two reports from Grant Thornton which were designed to bring Members up to date with their progress as the Council's External Auditor and to outline their programme of work for the coming months. The reports contained a number of questions for Members to consider and the covering report produced by the Council sought to add some context to those issues. Mr Mack drew particular attention to the austerity work that would continue with difficult times remaining ahead and the latest with the Local Audit and Accountability Act and the ability for Councils to choose their External Auditors in the future.

In response to a question the Deputy Chief Executive advised that the good practice checklist proposed by Grant Thornton on 'Tipping Point' had been completed last year and brought to the Committee and they would consider when it was appropriate to do so again, either to the Committee or a pre-Committee briefing session.

**Resolved:**

**That Grant Thornton's Audit Plan and Audit Committee Update be received and noted.**

### **379 Report Tracker and Future Meetings**

**Resolved:**

**That the report be received and noted.**



## **380 Brian Parsons**

The Chairman advised that this was the last Audit Committee Meeting for Brian Parsons, Head of Audit Partnership, before his retirement. On behalf of the Committee he said he would like to thank Brian for all his hard work in guiding the Committee and the Internal Audit Partnership throughout the years. He wished him well in his retirement. Brian said he had enjoyed his nine years working with Ashford and was thankful for the good working relationship he had enjoyed with both Officers and Members.

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Queries concerning these Minutes? Please contact Danny Sheppard:  
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