

## GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Wednesday, 27 January 2016.

PRESENT: Mr R L H Long, TD (Chairman), Mr R J Parry (Vice-Chairman), Mr M Baldock, Mr R H Bird, Mr D L Brazier, Mr C P D Hoare, Mr S C Manion, Mr R A Marsh, Mr B Neaves, Mr J E Scholes, Mr W Scobie, Mr D Smyth and Mr M E Whybrow

ALSO PRESENT: Miss S J Carey

OFFICERS: Mr A Wood (Corporate Director Finance and Procurement), Mr N Vickers (Head of Financial Services), Mr G Wild (Director of Governance and Law), Mr D Whittle (Director of Strategy, Policy, Relationships and Corporate Assurance), Mr R Patterson (Head of Internal Audit), Ms S Buckland (Audit Manager) and Mr A Tait (Democratic Services Officer)

ALSO IN ATTENDANCE: Mr P Hughes and Ms L Leka from Grant Thornton LLP UK.

### UNRESTRICTED ITEMS

#### **1. Membership** (Item 2)

The Committee noted the appointment of Mr D L Brazier in place of Mr J A Davies.

#### **2. Minutes** (Item 5)

RESOLVED that:-

- (a) subject to two minor amendments, the Minutes of the Committee meeting held on 2 October 2015 are correctly recorded and that they be signed by the Chairman; and
- (b) the draft Minutes of the Trading Activities Sub-Committee meeting held on 23 November 2015 be noted.

#### **3. Committee Work and Member Development Programme** (Item 6)

(1) The Head of Internal Audit proposed an updated forward Committee Work Programme and Member development Programme following revised best practice guidance in relation to Audit Committees.

(2) RESOLVED that approval be given to the proposed forward Committee Work and Member development programme to January 2017.

#### **4. Corporate Risk Register**

*(Item 7)*

(1) The Director of Strategy, Policy, Relationships and Corporate Assurance presented the register together with an overview of the changes since it had last been presented and an outline of the ongoing process of monitoring and review.

(2) Comments made by Members of the Committee were that consideration should be given on whether to upgrade the Current Likelihood of Risk CRR 4 to (4) "Likely"; on whether Risk CRR 17 should be split into smaller sections; and on whether CRR 22 should include the risk of other Local Authorities not accepting KCC's Unaccompanied Asylum seeking children (UASC) referrals. A more general comment was made that consideration should be given to diverting resources from prevention to contingency planning in respect of cybercrime.

(3) RESOLVED that subject to the comments set out in (2) above, the assurance provided in relation to the development, maintenance and review of the Corporate Risk Register be noted.

#### **5. Review of KCC Risk Management Strategy, Policy and Programme**

*(Item 8)*

(1) The Director of Strategy, Policy, Relationships and Corporate Assurance presented the revised draft Risk Management Policy and Strategy for approval. He explained that the proposed amendments were minor in nature as they related to structural changes within the County Council.

(2) RESOLVED that approval be given to the Risk Management Policy and Strategy for the year 2016.

#### **6. Treasury Management 6 Month Review 2015/16**

*(Item 9)*

(1) Miss S J Carey presented the Treasury Management 6 Month Review on behalf of the Deputy Leader and Cabinet Member for Finance and Procurement. She drew attention to the successful recovery of the deposits made in the Icelandic Banks.

(2) RESOLVED that:-

(a) Mr Nick Vickers and his Team be thanked for their perseverance leading to the successful recovery of the deposits made in the Icelandic Banks; and

(b) approval be given to the Treasury Management 6 Month Review report for submission to the County Council.

#### **7. Debt Management**

*(Item 10)*

(1) The Deputy Cabinet Member for Finance and Procurement, Miss S J Carey and the Head of Financial Services reported on the County Council's debt position. They explained that the report had been structured in such a way that the Sundry Health debt was separated from that of the various Directorates and client related debt. .

(2) RESOLVED that the content of the report be noted for assurance.

## **8. Update on Savings Programme**

*(Item 11)*

(1) The Corporate Director of Finance and Procurement reported on progress towards the 2015/16 and 2016/17 budget savings. He explained that it was intended that by the time that the final budget was released in February 2016 there would be no Red (R) (High Risk) savings identified within it.

(2) RESOLVED that progress on the 2015/16 and 2016/17 revenue budget savings be noted for assurance.

## **9. Annual Review of the Committee Terms of Reference**

*(Item 12)*

(1) The Head of Internal Audit reported proposed minor amendments to the Committee's Terms of Reference.

(2) RESOLVED that approval be given to the minor amendments to the Committee's Terms of Reference which are appended to these Minutes.

## **10. Future appointment of External Auditors**

*(Item 13)*

(1) Mr P Hughes from Grant Thornton UK LLP informed the Committee that he had an Interest in this particular item and that he would take no part in its discussion.

(2) The Head of Internal Audit detailed the changes to the arrangements for appointing External Auditors at the conclusion of the 2017/19 audits, following the closure of the Audit Commission and the end of the transitional arrangements. He outlined the three options available to the Council, indicating a preference for Options 2 and 3 at this stage.

(3) RESOLVED that the future implications for external audit procurement arrangements be noted and that a further update report be presented to the Committee at its meeting in July 2016.

## **11. External Audit Update January 2016**

*(Item 14)*

(1) Mr P Hughes from Grant Thornton UK LLP reported on progress on delivering their responsibilities for 2015/16 as well as the emerging issues set out in the report.

(2) RESOLVED that the report be noted for assurance.

## **12. Effectiveness of Internal and External Audit Liaison**

*(Item 15)*

(1) The Head of Internal Audit summarised the effectiveness of the liaison arrangements between Internal and External Audit. He stated that liaison was working effectively, with both signing up to the six procedural bullet points set out in the Appendix to the report.

(2) Mr P Hughes from Grant Thornton UK PLC stated that he was in agreement with the content of the Head of Internal Audit's report.

(3) RESOLVED that the annual update on liaison arrangement between Internal and External Audit be noted for assurance together with the protocol set out in the Appendix to the report.

## **13. Internal Audit and Counter Fraud Progress Report**

*(Item 16)*

(1) The Head of Internal Audit summarised the outcomes of Internal Audit and Counter Fraud activity for the 2015/16 financial year to date. He confirmed that he would report to the Committee on any matter that was a significant risk to the County Council.

(2) RESOLVED that approval be given to the Anti-Money Laundering Policy without amendment since it was last agreed in January 2015 and that the following be noted:-

- (a) progress and outcomes against the 2015/16 Audit Plan and relevant indicators;
- (b) progress and outcomes in relation to Counter Fraud activity;
- (c) Management's performance in implementing agreed actions from previous audits;
- (d) the overall assurances provided in relation to the Council's control and risk environment as a result of Internal Audit and Counter Fraud work completed to date;
- (e) the proposed service enhancements and emerging plans for 2016/17; and
- (f) the positive assurance around the current anti-money laundering Policy, following internal review.

## TERMS OF REFERENCE

### Governance and Audit Committee

#### *15 Members*

*Conservative: 8; UKIP: 3; Labour: 2; Liberal Democrat: 1; Independent: 1.*

The purpose of this Committee is to:

1. ensure the Council's financial affairs are properly and efficiently conducted, and
2. review assurance as to the adequacy of the risk management and governance framework and the associated control environment.

On behalf of the Council this Committee will ensure the following outcomes:

- (a) Risk Management and Internal Control systems are in place that are adequate for purpose and effectively and efficiently operated.
- (b) The Council's Corporate Governance framework meets recommended practice (currently set out in the CIPFA/SOLACE Good Governance Framework), is embedded across the whole Council and is operating throughout the year with no significant lapses.
- (c) The Council's Internal Audit function is independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of the work to be carried out is appropriate.
- (d) To approve the appointment and remuneration of External Auditors in accordance with relevant legislation and guidance, and the function is independent and objective. That there is a robust external audit plan to ensure the necessary scrutiny and assurance in relation to obligations for an audited statement of accounts.
- (e) The External Audit process is effective, taking into account relevant professional and regulatory requirements, and is undertaken in liaison with Internal Audit.
- (f) On behalf of the County Council provide assurance that the financial statements (including the Pension Fund Accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective.
- (g) Any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound.
- (h) Accounting policies are appropriately applied across the Council.

- (i) The Council has a robust counter-fraud culture backed by well designed and implemented controls and procedures which define the roles of management and Internal Audit.
- (j) The Council monitors the implementation of the Bribery Act Policy to ensure that it is followed at all times.

## ***Responsibilities***

### **Risk Management and Internal Control**

The Committee should:

- Review annually the Council's Risk Management Policy and Procedures to ensure they remain up to date and relevant;
- Review the Council's Corporate Risk Register every six months to assess the effectiveness of the systems established by senior officers to identify, assess, control and monitor financial and non-financial risks;
- Review regular and ad-hoc assurance reports from officers in order to assess the effectiveness of the planned actions to mitigate the risks identified;
- Commission investigations into any matter of concern within the Terms of Reference of the Committee, consider the findings thereof and make appropriate recommendations to the Council;
- Ensure appropriate action is taken in response to recommendations arising from any external audit, internal audit, operational compliance or business risk report to monitor such action, making appropriate recommendations to the Council;
- Ensure that any significant partnership that the Council enters into has appropriate Governance and Risk Management arrangements, and that any risk to the Council from the Partnership is minimised;
- Consider the Annual Risk Management Report and assess the impact of the findings on the Annual Governance Statement;
- Review regular monitoring reports on treasury management activity and significant risks.

### ***Corporate Governance***

The Committee should:

- Ensure that the Annual Governance Statement (including the list of significant issues for action in the ensuing year) is prepared in accordance with the statutory requirements and guidance, properly reflects the risk environment, and monitor progress on the significant issues and actions identified in the Statement;

- Review the Council's key financial governance procedures i.e., Financial Regulations, Schemes of Delegation, the Procurement Policy and the Treasury Management Policies, and recommend any necessary amendments;
- Review the Council's Code of Corporate Governance and make recommendations to Council to ensure that it remains relevant to the Council's work and remains in compliance with best practice and legislation;
- Consider issues referred by the Head of Paid Service, Corporate Director of Finance and Procurement, Monitoring Officer, any Council body or appropriate external party within the remit of these Terms of Reference;
- Monitor the Council's compliance with its own published standards and controls;
- Make recommendations to the Council on amendments to the Constitution to ensure compliance with standards of financial probity and stewardship;
- Consider arrangements made by the Superannuation Fund Committee for effective governance of the Kent Pension Fund.

### ***Internal Audit***

The Committee should:

- review annually the Internal Audit Strategy, ensuring that its Annual Plan addresses the key risks of the Council, recommending changes and additions as necessary;
- Review at each meeting of the Committee progress against, and changes to, the Annual Plan;
- Review at each meeting of the Committee the findings of Internal Audit work and the adequacy of management response to their findings;
- Review at each meeting of the Committee the implementation by officers of agreed "High" priority Internal Audit recommendations, seeking explanations from those responsible where implementation has not been achieved;
- Consider the results of the annual benchmarking and Key Performance Indicator results for Internal Audit;
- Assess the implications of the Internal Audit Annual Report on the Council's risk management, control and governance processes;
- Annually assess the co-operation between External and Internal Audit and other inspection agencies or relevant bodies;
- Approve the Terms of Reference and Charter of Internal Audit.

### ***External Audit***

The Committee should:

- Approve on behalf of the Council the appointment of the External Auditor selected by the Audit Commission;
- Approve the annual External Audit plan and fee, ensuring that non-mandated work is proportionate, relates to recognised risks of the Council and takes account of the work of Internal Audit or other assurance activities;
- Review at each meeting of the Committee progress against, and changes to, the External Audit plan and fee;
- As “those charged with governance”, receive the Annual Governance Report and the Annual Audit Letter and monitor Council’s response to the External Auditor’s findings and the implementation of external audit recommendations.

### ***Financial Reporting***

The Committee should:

- Approve the Statement of Accounts on behalf of the Council, specifically considering the suitability of accounting policies and treatments and any changes to these; areas of major judgement; and any significant issues or amendments resulting from the audit;
- Ensure that the Kent Pension Fund Accounts, and summary extracts in the Council’s Accounts, have been prepared in accordance with recommended practice, and statutory requirements.

### ***Fraud***

The Committee should:

- Regularly review the Council’s Anti-Fraud and Anti-Corruption strategies;
- Regularly review the Council’s procedures for handling allegations from whistleblowers;
- Receive details of the findings of investigations resulting from either detected fraud or allegations made under the whistleblowing arrangements.

### ***Membership***

The membership of the Committee shall be 15 non-executive Members (Conservative 8; UKIP 3; Labour 2; Liberal Democrat 1; Independents 1).

### ***Rights and Access***

The Committee may procure specialist ad-hoc advice from officers or from suitably qualified external sources.

The Head of Internal Audit and the representative of External Audit will have unrestricted and confidential access to the Chairman of the Committee.



***Meetings***

The Committee will meet at least four times a year. The Chairman may convene additional meetings if required.

The quorum for Committee meetings is one third of its total voting membership.

The Committee may still validly exercise its functions even if Members have not been appointed to all the places on it.

***Attendees***

The Committee will normally be attended by the Corporate Director of Finance and Procurement, the Director of Governance and Law, the Head of Internal Audit, the Director of Strategy, Policy, Relationships and Corporate Assurance /Corporate Risk Manager and a representative of External Audit.

The Committee may request that any other Member or Officer attend to assist with its discussions on any particular issues.

***Work of other Committees***

In all of the above, the Committee will strive to develop effective liaison with the following:

- the Standards Committee with regard to matters of ethical governance;
- the Scrutiny Committee – to complement but not to duplicate the exercise of their role in checking compliance with Council processes and policies in reviewing decisions and actions;
- Cabinet Members, in particular those whose portfolios include executive functions related to the matters covered by these Terms of Reference;
- the Council, especially when developing the Council's Code of Corporate Governance.

***Training and Development***

The work of the Members of the Committee will be supported by a training and development programme consistent with the responsibilities to be discharged.

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