

AUDIT SUB-COMMITTEE

27th September 2006

**PRESENT:-**

**Labour Group**

Councillor Shepherd (Chair), Councillor Bell (Vice-Chair) and Councillor Lane.

**Conservative Group**

Councillors Atkin and Bladen.

AS/7. **MINUTES**

The Open Minutes of the Meeting held on 28th June 2006 were taken as read, approved as a true record and signed by the Chair.

**MATTERS DELEGATED TO THE SUB-COMMITTEE**

AS/8. **AUDIT COMMISSION - AUDIT AND INSPECTION PLAN 2005/06**

The Sub-Committee considered a report on the Audit Commission's Audit and Inspection Plan for 2005/06.

The Sub-Committee was advised that much of the detail in the report and the work within the plan had been superseded and largely already reported. It was noted that the Sub Committee, at its first Meeting in June 2006, had considered the equivalent Plan for 2006/07.

The Audit Commission Plan for 2005/ 2006 contained the following information:-

- Introduction
- Our responsibilities
- The fee
- Summary of key audit and inspection risks
- Grant claim certification
- Voluntary improvement work
- The team
- Future audit plans

The report also contained the following appendices:

- Appendix 1 - The new Code of Audit Practice
- Appendix 2 - Audit and inspection fee
- Appendix 3 - Planned outputs
- Appendix 4 - The Audit Commission's requirements in respect of independence and objectivity

**RESOLVED:-**

***That the Audit and Inspection Plan for 2005/06 be noted.***

AS/9. **AUDIT COMMISSION: ISA+ 260 AND GOVERNANCE REPORT 2005/06**

The Sub-Committee considered a report on the Audit Commission Statutory Annual Report on the Council's accounts and financial statements for 2005/06.

The report was introduced by Mr Andrew Blackburn, the District Auditor for the Council's area. A copy had been circulated to all Members of the Committee subsequent to the despatch of the Committee papers.

In summary, the report provided details on, together with any issues arising from the Audit Commission's audit of the Council's annual accounts, financial statements and systems for 2005/06. The report provided an opinion on the accounts which had been approved in draft form by the Finance and Management Committee at its Special Meeting on 29th June 2006. The report assessed the Council's overall value for money arrangements and also provided an opinion on whether the Council provided value for money, which was a new requirement for District Councils from 2005/06. The District Auditor advised that a third of the Councils for which he was responsible received a qualified opinion on their Value For Money assessment. This Council would receive an unqualified opinion on its Value for Money assessment.

At the end of the Audit Commission's audit, the Council would be required to provide a letter of representation which would be appended to the Audit Commission's Report. There was a requirement for the Council's Chief Finance Officer to provide assurances about the status of the Council's accounts and financial statements. This assurance would confirm that there were no material issues or transactions known other than those already reported and disclosed that could affect materially the accounts for 2005/06. The District Auditor advised that he would be giving an unqualified opinion on the Council's accounts.

Members asked the following questions in respect of the report:-

- How and why was the value of Council housing stock disposal overstated?
- How was the disposal value of a Council house calculated?
- What were the reasons behind the decision to include the £2.5 million arising from a Section 106 Agreement in the Council's accounts for 2005/06 when the monies were received after the close of the financial year?
- What was the criteria used by the Audit Commission to measure a Council's accounts and financial performance?
- Does the Audit Commission have a benchmarking criteria to measure value for money assessments of this Council compared against other District Councils?

The District Auditor and Officers replied in detail to Members' questions and advised that the criteria used by Audit Commission in respect of its assessment for Councils was as follows:-

- Setting, reviewing and implementing objectives
- Ensuring services met the needs of users
- Monitoring and reviewing performance
- Ensuring data quality
- Maintain a sound system of internal control
- Risk management arrangements
- Manage and improve Value For Money
- Financial strategy to delivery strategic priorities
- Match resources and spending
- Match performance against budget
- Management of its asset base
- Ensure probity and propriety

Responding to a Member's question, it was confirmed that the Audit Commission used a Use of Resources assessment procedure to calculate value for money. Approximately five percent of Councils received an inadequate rating and the majority then clustered round a score of two and three, with very few receiving a top score. It was confirmed that the Audit Commission would revisit the Use of Resources and that a report on this matter would be submitted to a future Meeting of the Sub-Committee.

**RESOLVED:-**

***That the Audit Commission ISA plus 260 and Governance report 2005/06 be received and noted.***

AS/10. **AUDIT COMMISSION – REVIEW OF INTERNAL AUDIT 2006**

The Sub Committee considered a report on the Audit Commission's report on a review of the Council's Internal Audit function for 2006. The Sub Committee was requested to consider and comment on the findings and proposed actions arising from the review.

The Sub-Committee was advised that in accordance with the Code of Audit Practice, the Council's appointed auditors were required to carry out a triennial full review of Internal Audit's activity. This work had recently been undertaken and was summarised in the report submitted. The triennial review was undertaken to satisfy the auditor that the Council had an effective Internal Audit service when measured against the standards of professional practice defined by CIPFA's Code of Practice for Internal Audit in Local Government. The Audit Commission was satisfied (apart from some points addressed in the action plan) that the Council had appropriate constitutional and management arrangements in place for its Internal Audit service. The Commission confirmed that they had been able to place reliance on this year's Internal Audit's fundamental systems work to discharge elements of their own statutory duties. The auditor, however, identified the following issues:-

- The level at which the Council's Audit Manager was managed.
- The timing and impact of internal audit reports.
- The way internal audit reports informed the production and reliability of the Council's financial statements and the Statement on Internal Control.

The above three issues together with others were considered in the action plan which was detailed in 'Appendix 1' to the report, which also included the Management's response to the points raised. The responses reflected all of the above issues which were already in the process of being addressed.

Members raised the following issues:-

- When was the triennial audit?
- Details were requested regarding the joint working arrangements between the Council's Internal Audit section and the Audit Commission.
- When would the review of the Council's Senior Management structure be completed?
- That, with respect to the statement of internal control, was the quality assurance programme now in place?

The Sub-Committee was advised that this was the latest triennial audit review and received detailed information on the joint working relationship between the Council's Internal Audit service and District Audit. It was confirmed that at the present time, the Chief Executive was considering the Council's Senior Management structure and this process was ongoing.

**RESOLVED:-**

***That the Sub-Committee receive a regular quarterly update report on the Audit Commission's review of the work of the Council's Internal Audit service.***

AS/11. **SUMMARY OF INTERNAL AUDIT REPORTS 2006/07**

The Sub Committee considered a report on a Summary of Internal Audit Reports 2006/07. The report detailed audit work undertaken and summarised the recommendations categorised as high, from individual audit reports. It was confirmed that Internal Audit provided an assurance of the Council's key financial systems which could be relied upon and that a sound system of internal control existed.

The Internal Audit team carried out audit work in accordance with the Council's Strategic Audit Plan. Reports and memoranda were prepared for many areas of audit work detailing recommendations for improvements in internal control. Recommendations in the report were categorised, dependent on the degree of risk identified. Managers were requested to agree the recommendations and the implementation process was planned. A summary of reports giving an assessment of internal control was submitted, which included the following areas:-

- Cash
- Debtors
- Housing Benefits
- Treasury Management
- Council Tax
- Payroll
- National Non Domestic Rates (NNDR)
- Budgetary Control
- Rent
- Main Accounting System

- Bank Reconciliation

There were a number of questions from Members on the categorisation of the recommendations detailed in Internal Audit reports. The Director of Corporate Services advised that the category of weakness identified as high, medium or low should be the determining factor when deciding whether it was necessary and appropriate for the Sub-Committee to ask for further information on a particular subject. The Director advised that only those categories which were shown as of high/significant risk were appropriate for further investigation.

Members asked questions regarding the Internal Audit report in respect of the Council's main accounting system and bank reconciliation process as the recommendation in the report highlighted a high/significant risk. The Council's main accounting system and bank reconciliation processes were completed to the satisfaction of the District Auditor. It was confirmed that given the high/significant risk recommendation in respect of the main accounting system and bank reconciliation process, an action plan had been prepared and implemented to address the concerns identified.

**RESOLVED:-**

***That a report be submitted to the next Meeting of the Sub-Committee on the Monitoring and Implementation Plan for the Council's main accounting system and the bank reconciliation process.***

AS/12. **PROPOSED ONGOING TRAINING AND DEVELOPMENT**

The Sub-Committee considered a report on the ongoing training and development programme specifically for Members of the Audit Sub-Committee.

Earlier in September 2006, Members of the Sub-Committee had received initial training on their general role. It was good practice for Members to be trained and, over time, acquire the necessary skills, knowledge and experience to add value to the role of the Sub-Committee. The following training programme was recommended for approval:-

- The functions of Internal Audit including role of management – December 2006
- The Council's Local Code of Corporate Governance – February 2007
- The Council's System of Internal Control – June 2007
- The Council's Financial Regulations and Procedural Rules – September 2007

The Sub-Committee was advised that as much of the above training would be undertaken internally, the associated costs would be contained within existing training budgets.

Members were pleased to accept the offer from the District Auditor made earlier in the Meeting to give a brief presentation to a future Meeting of the Sub-Committee on the work of the District Auditor.

**RESOLVED:-**

- (1) ***That the Sub-Committee approves the training programme outlined below:-***
- ***The functions of Internal Audit including role of management – December 2006***
  - ***The Council's Local Code of Corporate Governance – February 2007***
  - ***The Council's System of Internal Control – June 2007***
  - ***The Council's Financial Regulations and Procedural Rules – September 2007***
- (2) ***That the functions of Internal Audit, including the role of management training for Members of the Audit Sub-Committee be held on Friday, 8th December 2006 commencing at 3.00 p.m.***
- (3) ***That the offer of the District Auditor to give a presentation on the work of District Audit to a future Meeting be accepted.***

D.G. SHEPHERD

CHAIR

The Meeting terminated at 7.20 p.m.