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REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	26 <sup>TH</sup> JULY 2007	CATEGORY: DELEGATED
REPORT FROM:	CHIEF EXECUTIVE	OPEN
MEMBERS' CONTACT POINT:	NEIL BETTERIDGE 01283 595895	DOC:
SUBJECT:	AUDIT SUB-COMMITTEE	REF:
WARDS AFFECTED:	ALL	TERMS OF REFERENCE: FM19

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### **1.0 Recommendation**

- 1.1 That the Minutes of the Meeting of the Audit Sub-Committee held on 21<sup>st</sup> June 2007 be received and noted and the recommendations contained therein be considered.

### **2.0 Purpose of Report**

- 2.1 To consider the Minutes of the Meeting of the Audit Sub-Committee held on 21<sup>st</sup> June 2007, a copy of which is attached at Annexe 'A'.

### **3.0 Financial Implications**

- 3.1 Refer to Minutes.

### **4.0 Background Papers**

- 4.1 Minutes of the Audit Sub-Committee held on 21<sup>st</sup> June 2007

AUDIT SUB-COMMITTEE

21st June 2007

**PRESENT:-**

**Conservative Group**

Councillors Atkin and Timms.

**Labour Group**

Councillor Lane.

AS/1. **APPOINTMENT OF CHAIRMAN**

**RESOLVED:-**

*That Councillor Timms be appointed Chairman of the Sub-Committee for the remainder of the municipal year.*

AS/2. **APOLOGY**

An apology for absence from the Meeting was received from Councillor Shepherd (Labour Group).

AS/3. **APPOINTMENT OF VICE-CHAIRMAN**

**RESOLVED:-**

*That Councillor Lane be appointed Vice-Chairman of the Sub-Committee for the remainder of the municipal year.*

AS/4. **MINUTES**

The Open Minutes of the Meeting held on 18th April 2007 were taken as read, approved as a true record and signed by the Chairman.

**MATTERS DELEGATED TO SUB-COMMITTEE**

AS/5. **ANNUAL REPORT OF THE INTERNAL AUDIT SERVICE 2006/07**

The Sub-Committee considered the Annual Report of the Internal Audit Service for 2006/07, which provided Members with information on the work of Internal Audit during the past year. In respect of the audit work undertaken, the report provided an assurance that the Council's key financial systems could be relied upon and that a sound system of internal control existed.

The Internal Audit Team undertook a range of audits in accordance with the Council's Strategic Audit Plan. The team worked closely with the external auditors, who placed a considerable degree of reliance on the work undertaken by the Internal Audit Team. In essence, the Internal Audit service verified that financial and other systems included a level of control

sufficient to prevent and detect error and financial irregularity. As most financial transactions were heavily computerised, audit work focused increasingly on the effectiveness of computer systems used to administer the Council's finances.

The report explained how the team approached its work and provided a summary of the previous year. It would be impossible for any Audit Team to consider all the Council's activities in any one year, meaning work was prioritised based on the perceived level of risk involved. It was noted that the Council's internal control framework had effective systems to safeguard both the services and finances of the Council.

Councillor Lane referred to comments at the recent Annual Council Meeting regarding alleged financial irregularities and the Director of Corporate Services confirmed that from a financial perspective, there were none.

**RESOLVED:-**

- (1) That the Annual Report of the Internal Audit Service be noted.***
- (2) That the Annual Internal Audit Assurance Statement be approved.***

AS/6. **STATEMENT ON INTERNAL CONTROL 2006/07**

The Sub-Committee considered the Council's Statement on Internal Control for 2006/07 in accordance with the Accounts and Audit Regulations 2003 (Regulation 4). This regulation was amended in 2006 to require the findings of the review of the effectiveness of the system of internal control to be considered by an appropriate committee, such as an Audit Committee.

Regulation 4 required the Council to conduct, at least once a year, a review of the effectiveness of its system of internal control and to publish the relevant statement (SIC). This would be published within the Council's annual financial statements. The purpose of the SIC process was to provide a continuous review of the effectiveness of an organisation's internal control and risk management systems. This was to provide assurance on their effectiveness and/or to produce a management action plan to address identified weaknesses in either process. The SIC was designed to help demonstrate good corporate governance by setting out and reporting on how the Council conducted its overall business. The Council's SIC for 2006/07 was attached to the report and set out the overall framework that the Council had in place to ensure that business was conducted in accordance with the law and proper standards, accountability was maintained, public resources were safeguarded and properly accounted for, functions were exercised as effectively as possible and arrangements were in place to manage risk.

The Council operated within a fast changing environment and consequently, the system needed to be subject to constant review. There would always be room to strengthen and increase the effectiveness of internal control.

Issues identified in the corresponding statement for 2005/06 highlighted several areas to be developed. Many of these were acted upon during 2005/06, such as developing a new communication and consultation strategy, establishing an Audit Committee, producing a summary statement of accounts, reviewing performance management, regular reporting on risk

management and reviewing and updating the whistle blowing policy. Whilst these would continue to be embedded in the day-to-day business of the Council, there were other areas that had been identified and were considered key in strengthening further the internal control environment. These were set out in Section 5 of the SIC and primarily, were those that had been highlighted from a review of the Local Code of Corporate Governance and through work undertaken by the Audit Commission during the last year, including its Use of Resources Judgement.

The Corporate Management Team and Heads of Service had been consulted and made aware of the contents of the Statement, which must be signed by the Council's Leader and most senior officer (Chief Executive).

Councillor Lane expressed serious concern regarding several issues concerning corporate governance implications, including the apparent cessation of the Council's newspaper without formal approval, potential non-compliance with constitutional issues concerning the policy framework (in particular the strategic planning cycle in producing the Corporate Plan) and the non-appointment of Members to previously established Working Panels and of various Member Champions.

**RESOLVED:-**

- (1) That the Council's Statement on Internal Control for the year ended 31st March 2007 be approved and the Leader of the Council and Chief Executive be authorised to sign the Statement.***
- (2) That a report be submitted to the next Meeting of the Sub-Committee on the Action Plan together with the issues raised by Councillor Lane, as outlined above.***

AS/7. **USE OF RESOURCES ASSESSMENT 2006**

In accordance with its Terms of Reference, the Sub-Committee considered the Audit Commission's Use of Resources (UOR) assessment for the Council in 2006. The UOR was an annual assessment undertaken by the Audit Commission which evaluated how well councils managed and used their financial resources. It was used by the Audit Commission as one of the indicators that judged the degree of improvements being made at an authority and as such, it was part of the national Comprehensive Performance framework.

The assessment focused on the importance of having sound and strategic financial management to ensure that resources were available to support the Council's priorities and improve services. The assessment covered 5 themes, with the first 3 themes covering financial reporting, financial management and financial standing. A further 2 themes covered the wider aspects of internal control and to what extent and how authorities managed value for money. The Council scored an overall mark of 2 (only at minimum requirements – adequate performance) in 2005. Consequently, the Council agreed an action plan in May 2006 to move the Council to an overall mark of 3 (consistently above minimum requirements – performing well). During November 2006, the Audit Commission reviewed the Council and the improvements made since the previous assessment. The final report in March

2007 confirmed the overall score for the Council as 3 and the Sub-Committee received details of the scores for 2006, with a comparison to 2005.

The biggest improvement had been made in asset management, along with risk management and internal control. The Council's value for money arrangements had also improved but due to the scoring mechanism in this area, had still only scored an overall level of 2. Good performance in financial management was maintained, which included adopting additional requirements between 2005 and 2006. The only weak area was in the production of the annual statement of accounts, where performance fell to a level 1. The accounts were once again closed and financial statements produced within statutory timescales. Although they were given an unqualified opinion by external audit, this was after several material errors had been corrected in the draft accounts.

The 2007 assessment had introduced further requirements over and above 2006, just to maintain levels 2 and 3. This was in accordance with the Audit Commission's strategy to increase the stiffness of the test each year. In the assessment report for 2006, the Audit Commission had suggested improvements to move the Council's lower scores upwards and to meet the new requirements. The timing of the assessment had also changed and was being aligned with financial years. The 2007 assessment would be based on arrangements in place as at 31st March 2007, although auditors did have some discretion to allow improvements after then if the Council could prove "embeddedness." Consequently, the 2007 assessment would be reported earlier, in December 2007.

In order to meet these requirements, an action plan had been established which was considered by the Sub-Committee. This plan reflected the work needed to improve the overall scores for financial reporting and value for money from level 2 to 3. In almost every area, the Council already met the new requirements, but in some instances was expected to provide further evidence of the impact and outcomes of some of the criteria, which was reflected in the action plan. It was considered that these actions would maintain and consolidate the Council's score at level 3 for all categories.

The Audit Commission had recently issued a consultation paper to increase the requirements further for 2008, based on the financial year 2007/08. This would be the last year of the UOR in its current form due to the introduction of Comprehensive Area Assessments (CAA) from 2009. The 2008 assessment was considered as a transition year before the new CAA system was introduced and was designed to address areas signalled in the Government's recent White Paper. Consequently, areas subject to a keener focus included partnership working and joint procurement, citizen engagement, sustainability, data quality, asset management and efficiency. The Commission also proposed to continue the process of gradually raising the bar, particularly at those levels (3 and 4) that exceeded minimum requirements. The final lines of enquiry would be published in July 2007, providing councils with time to prepare for the assessment that would be undertaken between April and October 2008.

In response to a query, it was confirmed that the Finance and Management Committee would be responsible for monitoring the action plan, as in the previous year.

**RESOLVED:-**

- (1) ***That the Audit Commission's Use of Resources Assessment for the Council for 2006 be noted.***
- (2) ***That the Action Plan to sustain the improved performance at level 3 and to meet new requirements be noted.***

AS/8. **SUMMARY OF INTERNAL AUDIT REPORTS 2006/07**

The Sub-Committee received details of specific internal audit reports. The Internal Audit Service undertook a programme of work each year, as detailed in the Annual Audit Plan. This work ranged from comprehensive system reviews, audits and investigations through to control advice and internal check responsibilities. Recommendations were made and agreement was sought on the implementation of these, in the form of management responses and/or an action plan. Recommendations were categorised as high, medium or low. The criteria was determined from a combination of the identified control weakness and the effect of not implementing the recommendation. The reporting criteria detailed audits with high category recommendations.

There were three types of report, being a specific audit report summary, a follow-up summary and detailed reports requested by Members. Specific audit report summaries were provided relating to Council Tax, National Non-Domestic Rates and housing benefits. Follow-up summary reports were provided relating to bank reconciliation and the main accounting system. A detailed report on bank reconciliation was also provided, as previously requested by the Sub-Committee.

Internal Audit had undertaken work on Council Tax, NNDR, housing benefits, bank reconciliation, main accounting, housing renewal grants, land sales, Local Area Agreements, Members' allowances, security, fraud and corruption work, contract and computer audit. Financial Procedure Rules were being updated and advice had been provided on control and corporate governance issues. The Internal Audit Service had completed 91% of the planned audit days for 2006/07.

**RESOLVED:-**

***That the summary of audit reports be noted.***

H.M. TIMMS

CHAIRMAN

The Meeting terminated at 4.25 p.m.