

AUDIT SUB-COMMITTEE

12th December 2007

PRESENT:-

Conservative Group

Councillor Timms (Chairman) and Councillor Atkin.

Labour Group

Councillor Lane (Vice-Chairman) and Councillor Shepherd.

Independent Member

Councillor Mrs. Brown

AS/7. **MINUTES**

The Open Minutes of the Meeting held on 26th September 2007 were taken as read, approved as a true record and signed by the Chairman. Further to Minute No. AS/13 (2) the Director of Corporate Services circulated an updated Action Plan on Internal Control.

MATTERS DELEGATED TO SUB-COMMITTEE

AS/8. **EXTERNAL AUDIT – AUDIT AND INSPECTION PLAN 2007/08**

It was reported that the Council's External Auditor had changed from 2007/08, in accordance with the rotation system. The Audit Commission had been the Council's Auditor for several years and this year it had changed to Grant Thornton UK LLP. This was a private firm of auditors appointed by the Audit Commission and accountable to them.

Each year, the External Auditor was required to produce a planned programme of work and given the change over, the process was slightly later this year. Grant Thornton's plan for 2007/08 was attached to the report and this had been agreed with the Corporate Management Team. Subsequent sections of the Committee's report set out the work that would be undertaken by the Audit Commission and the scope of Grant Thornton's work for 2007/08.

The Chairman welcomed Kyla Bellingall from Grant Thornton. She took Members through the Audit and Inspection Plan for 2007/08, initially making reference to the transitional arrangements and the respective roles of Grant Thornton and the Audit Commission. She focussed particularly on the Use of Resources Audit, the Financial Statements Audit, with regard to risk assessment and the audit response from the section of the plan on Grant Claims. Finally, she confirmed the audit and the inspection team for South Derbyshire.

Questions were invited and Councillor Atkin asked of the Auditor's experience with rural local authorities. The Auditor explained the public sector practice expertise available in-house, particularly following a merger. Grant Thornton

was now the largest provider in this sector and she outlined the range of local authorities and other bodies serviced by the practice.

The Chairman submitted questions regarding the risk-based data quality spot checks in the Use of Resources audit section of the Plan and asked particularly how this would be undertaken. The Auditor explained the mechanics of the risk-based process to determine the size of sample for spot checks. She used examples elsewhere to demonstrate the types of check which could be undertaken. The Chairman also asked about the fee structure for this and future years. The auditor expected there would be an increase in audit fees, particularly because of the move to international financial reporting standards. These would require a different approach, with an associated cost increase. However, the auditors would work with the District Council to keep fee levels as low as possible. In response to a question from Councillor Atkin about grant claims, the auditor explained the different category approach, to determine the level of audit work required. Reference was made to a proposed workshop to assist Officers at the District Council on this issue. There was a need for clear communication between the auditors and the Council to ensure the audit process of grant claims was as easy as possible. The Director of Corporate Services also touched on the training requirements for Officers, but these would be funded from existing resources. She commented on the likely increase in audit fee levels and confirmed this was not directly from the auditors, but more associated with the new reporting standards.

Councillor Lane referred to the risk assessment and audit response within the Use of Resources audit. At Exhibit 3, reference was made that the Council might revert to a cabinet and scrutiny structure in the future. It was unclear why this statement was included within the document and the auditor offered to alter this section. This was inaccurate. Reference was also made to the Strategic Housing Inspection, it being noted that this would be undertaken wholly by the Audit Commission. The Chairman thanked Kyla Bellingall for her attendance.

RESOLVED:-

That the Audit and Inspection Plan for 2007/08 be approved.

AS/9. **THE NEW ANNUAL GOVERNANCE STATEMENT**

It was reported that there was a statutory obligation to produce an Annual Governance Statement. An overview was provided of the new requirements, together with the proposed arrangements for complying with best practice, in order to fulfil this statutory obligation. Background was provided on governance issues. Every local authority was required to produce an annual Statement on Internal Control. In addition, it was considered best practice to adopt and publish a Local Code of Corporate Governance. Effectively, this was a statutory requirement from 2007/08. The Council would be required to publish an Annual Governance Statement (AGS), effectively an annual report to stakeholders. It would need to set out how the Council applied best practice and, based on regular review, any areas that might need strengthening. The format of the AGS was based on six core principles, that were detailed within the report. The Council would need to provide evidence of how each principle was met and it was just as important to identify areas that needed strengthening and where improvement was being sought. Each

principle was subsequently broken down into various characteristics. When combined, these would demonstrate the adequacy or otherwise for the Council's corporate governance arrangements. The Institute of Public Finance had provided guidance on the format of the AGS, how each principle should be met and illustrative evidence to support each characteristic.

The Council's current position was reported. It had adopted a Local Code of Corporate Governance in 2005, based on best practice. This had been the subject of reviews since that time. Generally, it was considered that the Local Code contained much of the required evidence and it would be able to comply with the new requirements. However, some work and review would be required, to tailor the AGS to provide evidence for the auditors and to keep it under review.

In terms of ownership and reporting, it was proposed that this Committee oversee and monitor the arrangements for complying with the new requirements. The compilation of the AGS and review process would be co-ordinated by the Council's senior Management Team. The report also noted the need to communicate the AGS effectively across the organisation.

Finally, the report addressed the timetable for publication of the AGS. It was proposed that a draft report be considered by the Sub-Committee prior to the publication date of 30th June each year. Any work plan arising from the yearly statement would be subject to regular review by the Sub-Committee. It was intended to table the first AGS at the June 2008 Meeting and to produce an earlier draft to see how the Council's current arrangements met the six principles, through a report at the February Meeting.

The Chairman referred to the principle concerning the role of Officers and Members, including their relationship and asked how this would be evidenced. It was noted that elsewhere in the Country, problems and governance issues had been experienced at councils where conflict had occurred.

Councillor Lane referred to governance issues generally and particularly to a Minute from the previous Meeting, requesting the Leader of the Council to report on the arrangements for consideration of issues that previously would have been discussed at certain working panels. The Chairman provided a statement from the Leader at a Council Meeting, that policy committees would provide the forum for determination of most issues and therefore panels would only be used as a rarity. It was questioned where the report from the Leader was. The Director of Corporate Services offered to speak to the Leader of the Council, asking her to speak to Councillor Lane on this matter, outside the Meeting. The Minutes of the previous Meeting had been considered and approved as a true record and as such it was determined that this issue was outside of process.

Members of the Sub-Committee felt that the Minutes were incomplete. There was a debate that was not recorded. In the majority, the Sub-Committee rejected the notional report and the majority of Members felt that this was discounted by the Director of Corporate Services, who exited the Meeting at this point.

RESOLVED:-

That the requirements of the new governance statement and the Council's approach to compliance be approved.

AS/10. INTERNAL AUDIT SERVICE STRATEGY 2007/10

It was reported that the current strategy formed part of the 2004 – 2007 Service Plan, produced as part of the Corporate Service Planning process. Following a management restructure, Internal Audit now reported to the Head of Finance and Property Services and its Service Plan formed part of that for Finance and Property Services. CIPFA's Code of Practice for Internal Audit required that a Service Strategy be produced and the Strategy could be a document in its own right or form part of the Service Plan. The original service-planning document had been used to maintain the Strategy.

The Service Strategy had been reviewed for the period to 2010 and a copy was appended to the report, for Member's consideration. The Audit Strategy element of the overall Service Strategy would be included within the Audit Charter, as part of the Internal Audit Manual. The Audit Manager took Members through the Internal Strategy Document and an appended extract from the Internal Audit Manual.

The Officer responded to questions from Members regarding the production of this document and the four-year risk based approach to the Audit Strategy. Councillor Lane submitted a number of questions about the relationship to the Local Strategic Partnership and delivery of Local Area Agreement (LAA) actions. It was explained that joint work with Derbyshire County Council took place in a manner similar to that with external audit on other areas of audit work. It was questioned whether the Council's responsibilities under the LAA would appear on the risk register and whether there was flexibility to accommodate additional areas within the Strategy. The Officer provided further advice on these matters.

RESOLVED:-

That the Sub-Committee approves the Service Strategy for the period 2007/10.

AS/11. SUMMARY OF INTERNAL AUDIT REPORTS 2007/08 (SEPTEMBER - NOVEMBER)

It was reported that the Internal Audit team undertook its work in accordance with the Council's Strategic Audit Plan. Reports and other documents were produced for many areas of audit work, detailing recommendations for improvements in internal control. Recommendations were categorised dependant upon the degree of risk identified and a summary of reports was submitted. This included, where appropriate, progress on the implementation of recommendations previously reported. There were three types of report, namely specific audit reports, follow up summaries and detailed reports requested by Members.

The Committee was advised of one area for report on Creditors, where a number of recommendations were made, all of which were low risk. Arising from the consideration of this item, the Chairman made reference to a recent

press article on the reduction in number of complaints received against the Council.

RESOLVED:-

That the Committee accepts the summary of audit reports as submitted.

H. TIMMS

CHAIRMAN

The Meeting terminated at 5.05 p.m.