

AUDIT SUB-COMMITTEE

28th June 2006

**PRESENT:-**

**Labour Group**

Councillors Bell and Shepherd.

**Conservative Group**

Councillors Atkin and Bladen.

AS/1. **APPOINTMENT OF CHAIR**

**RESOLVED:-**

***That Councillor Shepherd be appointed Chair of the Audit Sub-Committee for the remainder of the municipal year 2006/07.***

**APOLOGIES**

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

AS/2. **APPOINTMENT OF VICE-CHAIR**

**RESOLVED:-**

***That Councillor Bell be appointed as Vice-Chair of the Audit Sub-Committee for the remainder of the municipal year 2006/07.***

**MATTERS DELEGATED TO THE SUB-COMMITTEE**

AS/3. **TERMS OF REFERENCE AND INITIAL WORK PROGRAMME 2006/07**

Members considered a report on the following areas:

- Terms of Reference
- Proposed Work Programme 2006/07
- Training and Awareness

**SUB-COMMITTEE TERMS OF REFERENCE**

The Audit Sub-Committee was established by Council at its Annual Meeting on 25th May 2006 its terms of reference are as follows:

**Statement of Purpose**

The purpose of the Audit Sub-Committee was to provide independent assurance of the adequacy of the risk management framework and the associated control environment, and to provide independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment.

The Sub-Committee would also oversee the Councils corporate governance arrangements.

The report detailed the Sub Committees specific terms of reference, it was noted that it would report to the Finance and Management Committee, but would retain its independence.

#### SUB-COMMITTEE PROPOSED WORK PROGRAMME

Members were advised that the initial work programme of the Sub Committee was as follows:

<b>DATE</b>	<b>REPORTS</b>
28 <sup>th</sup> June 06	<ul style="list-style-type: none"> <li>• Proposed Work Programme and Terms of Reference</li> <li>• Proposed Training Arrangements for Members</li> <li>• Annual Internal Audit Report 2005/06</li> <li>• Internal Audit Strategic Plan 2006 to 2010</li> <li>• External Audit – Audit and Inspection Plan 2006/07</li> </ul>
27 <sup>th</sup> Sept 06	<ul style="list-style-type: none"> <li>• External Audit - ISA 240 Report 2005/06 (External Audit in attendance)</li> <li>• Feedback from Training and Development</li> <li>• Summary of Internal Audit Reports Issued to-date 2006/07</li> <li>• External Audit Reports Issued to-date 2006/07</li> </ul>
14 <sup>th</sup> Dec 06	<ul style="list-style-type: none"> <li>• Summary of Internal Audit Reports Issued to-date 2006/07</li> <li>• External Audit Reports Issued to-date 2006/07</li> </ul>
28 <sup>th</sup> Feb 07	<ul style="list-style-type: none"> <li>• Summary of Internal Reports Issued to-date 2006/07</li> <li>• External Audit Reports Issued to-date 2006/07</li> <li>• Review and Update of Strategic Plan 2007 to 2011</li> <li>• Draft Audit and Inspection Plan 2007/08 (External Audit)</li> <li>• ½ Yearly Review of Local Code of Corporate Governance</li> <li>• Review Terms of Reference, Work Programme and Training Requirements</li> </ul>

It was confirmed that in future the June Meeting of the Sub-Committee would consider the Council's statement on internal control and any issues arising from it. Members noted that given the Sub-Committee was in its infancy it was proposed to keep the work programme under review and revisit it at least annually.

#### TRAINING AND AWARENESS

Given the complex and technical nature of the work of the Sub-Committee it was good practice that Members be trained and over time develop the necessary skills and knowledge to add value to the role of the Sub-Committee. It was proposed that initial training and awareness around the roles and responsibility of Members would be delivered by a suitably qualified

and experienced independent organisation such as the Institute of Public Finance. The training would be delivered on site and tailored to meet the requirements of Members. The training was proposed to take place during early September before the next Meeting on 27th September 2006 at a cost of approximately £750 which could be accommodated within the training budget.

**RESOLVED:-**

- (1) That the Sub-Committee's Terms of Reference as approved by Council be noted.***
- (2) That the Sub-Committee's initial work programme for 2006/07 be approved and be reviewed at least annually.***
- (3) That initial training and awareness around the roles and responsibilities of Members of the Audit Sub-Committee be arranged for either:***
  - Wednesday 13th September 2006 at 2.00 p.m. (first preference)***
  - Wednesday 20th September 2006 at 2.00 p.m. (second preference)***

AS/4. **INTERNAL AUDIT STRATEGIC PLAN 2006 TO 2010**

The Sub-Committee considered a report on the Internal Audit Strategic Plan 2006 to 2010 the purpose of which was to:

- provide Members with the details of the strategic audit planning process for the four financial years ending 2010 including the work plan for the current year 2006/07.
- advise Members that the Strategic Audit Plan for the period 2006/10 had been approved by the Finance and Management Committee on 4th May 2006, but would in future be reviewed and approved by this Sub-Committee.

The Sub-Committee was advised that Internal Audit was an assurance function whose primary purpose was to provide an organisation with an independent and objective opinion on the degree to which the control and governance environment supports and promotes the achievements of the organisation's objectives. It would objectively examine, evaluate and report on the adequacy of the internal control environment as a contribution to the proper, economic, efficient and effective use of the organisation's resources.

Members noted that the work of Internal Audit was planned in advance to ensure that there was a reasonable coverage of all Council activities within the resources available. It was noted that it was not possible to cover all activities within one year and therefore a strategic planning process was used. The strategic audit planning process comprised needs, risk and resource assessments which culminated in the development of a long term plan. This process involved professional judgements on:

- The definition of auditable systems
- The approach for determining risk and providing assurance

- The priority given to, and frequency of, each audit
- The allocation of audit resources

The Sub-Committee was advised that the Corporate Management Team and the Heads of Service had been consulted on the internal control framework, and the Director of Corporate Services, as the Council's Responsible Finance Officer had agreed the plan.

Members were informed that the Strategic Audit Plan for the period 2006/10 was detailed at Appendix A of the yellow sheets and the Annual Work Plan for 2006/07 was attached at Appendix B again on the yellow sheets.

**RESOLVED:-**

***That the Strategic Audit Plan for the period 2006/10 and the Annual Work Plan for 2006/07 be noted.***

AS/5. **ANNUAL REPORT OF THE INTERNAL AUDIT SERVICE 2005/06**

The Sub-Committee considered a report on the work of the Internal Audit service for 2005/06.

The Sub-Committee was advised that the audit work undertaken by the Council's Internal Audit service provided an assurance that the Council's key financial systems could be relied upon and that a sound system of internal control exists.

Members were informed that the Internal Audit Team carried out a range of audits in accordance with the Council's Strategic Audit Plan, the team works closely with the external auditors who place a considerable degree of reliance on work carried out by the Internal Audit Team. In essence Internal Audit verifies that financial and other systems include a level of control sufficient to prevent and detect error and financial irregularity. Most of the Council's financial transactions were heavily computerised this meant that audit work focused increasingly on the effectiveness of the computer systems used.

The Sub-Committee was advised that the Internal Audit Report covered the following areas:

- Strategy and Objectives
- Resources
- Management
- Non-Audit Functions
- Planned Audits
- Fraud and Irregularity
- Contract Audit
- Computer Audit
- The Audit Plan
- Special Investigations/Assignments
- Statement on Internal Control
- Current Year Plan 2006/07

**RESOLVED:-**

***That the Sub-Committee note the Annual Report of the Internal Audit Service for 2005/06.***

AS/6. **AUDIT COMMISSION – AUDIT AND INSPECTION PLAN 2006/07**

The Sub-Committee considered a report on the Audit Commission's Audit and Inspection Plan for 2006-2007. The Sub-Committee was asked to consider and comment on the scope and depth of the work planned, in particular to ensure as far as possible that it provided value for money.

The Sub-Committee was advised that the Council's External Auditors are the Audit Commission, each year they are required to issue their planned programme of work for the forthcoming year. Members were informed that the Audit Commissions work for the Council for 2006/07 had been agreed with the Council's Corporate Management Team. The Sub-Committee noted that it would have the opportunity in future to consider and comment on the scope and depth of the audit work planned.

Members were advised that to a significant extent the direction of the Audit Commission's work was governed by statutory requirements, however the scope and depth of material covered was influenced by such factors as a Council's performance and operation and the degree of local risk involved.

Members noted that the role of the Audit Commission was not just about inspection but also to support improvement., they were required to assess improvement and the use of resources (including value for money) on an annual basis.

**Scope of Audit Commission Work for 2006/07**

The Sub-Committee was advised that a large proportion of the Audit Commission's work for 2006/07 would continue to focus on the regular and ongoing areas such as:

- The controls and adequacy of fundamental systems (e.g. the financial management systems) in conjunction with Internal Audit.
- Audit of the Council's Accounts.
- Assessing performance on how the Council "uses its resources".
- An opinion on whether the Council provided value for money.
- Reviewing the adequacy and quality of data for reporting performance indicators.
- Reporting on whether or not the Council has complied with the legislation in the preparation and publication of the Best Value Performance Plan.
- Audit and certification of grant claims.

In addition to the above work, Members were advised that the Commission proposed that the following areas would be subject to more detailed monitoring/review during the coming year:

- The Council's performance management system.
- Risk management arrangements.
- The effectiveness of the Audit Committee.

- The operation of the Local Area Agreement.
- Changes to Accounting Practice and how the Council applies them.
- Developments and any changes to the Revenues and Benefits Service.

The Sub-Committee was advised that the total audit and inspection fee payable to the Audit Commission was £105,200, compared to £88,919 for 2005/06 an increase of 15%. The Sub-Committee was advised that the fee structure for 2006/07 was changed nationally with the Audit Committee and direct comparisons with 2005/06 were difficult. The Audit Commission had indicated that the following factors have influenced their fee level for South Derbyshire.

- The need to develop further the Council's performance management system.
- Risks associated with the Local Area Agreement.
- Changes to the financial statements as a result a new accounting practice in 2006.
- The final outcome and decision in respect of the future of the revenues and benefits system.

The Audit Commission had identified a number of actions the Council could take to reduce the fee, these were:

- To improve working papers and financial statements to ensure that they tie into the Council's accounts.
- To encourage senior managers to take more responsibility for checking the accuracy of performance indicators.

**RESOLVED:-**

***That the Sub-Committee agree the Audit Commission's Audit and Inspection Plan for 2006/2007.***

D. SHEPHERD

CHAIR

The Meeting terminated at 6.55 p.m.