

AUDIT SUB-COMMITTEE

Meeting - 29 June 2006

Present: Mr Hollis, Mr Mountford and Dr Scott.

Apologies: Mr Harding, Mr Oxley and Mr Royston.

1. ELECTION OF CHAIRMAN

RESOLVED that:-

- (1) Mr Mountford be elected to Chair the meeting.
- (2) The election of Chairman of the Sub-Committee for the longer term be deferred until the next meeting.

2. INTRODUCTIONS

Introductions of all parties at the meeting were made. The Chairman extended a welcome to those in attendance:

Mick West, Relationship Manager, Audit Commission (External Audit)
Sean Kennedy, Principal Auditor, Audit Commission (External Audit)
Stephen Vinall, Audit Manager, Bentley Jennison, (Internal Audit)

3. BRIEFING ON THE ROLE OF THE AUDIT SUB-COMMITTEE

The Head of Finance gave a briefing on the role of the Sub-Committee. The Sub-Committee had been established in order to provide a clear focus on audit and control issues in line with emerging Best Practice. The key responsibilities of the Sub-Committee were in relation to:

- Risk Management
- Assurance Statements
- Audit Arrangements
- Statement of Accounts.

The briefing provided some detailed guidance in relation to each of the key responsibilities.

Risk Management was about reducing the operational, financial and other risks that the Council faced. The Risk Management policy of the Council was to adopt best practices in the identification, evaluation and cost effective control of risks to ensure that they are eliminated or reduced. The role of the Audit Sub-Committee was to review the Council's Risk Management arrangements to ensure that they were adequate and effective.

The Sub-Committee had been given responsibility to review any Assurance Statements the Authority issues. Currently the only such statement was the Statement of Corporate Governance and Internal Control (setting out how well the Authority is governed and how well its activities are managed). Corporate Governance was the system by which local authorities direct and control their functions and relate to their communities. Internal control was the name given to policies, procedures, systems and review mechanisms put in place to ensure that the organisation is subject to adequate management to ensure the organisation meets its objectives. The role of the Audit Sub-Committee was to review the statement to ensure it is accurate.

The Sub-Committee also had a responsibility to oversee the Council's audit arrangements, the Council's external audit was provided by the Audit Commission and the Sub-Committee would be involved in seeing the external audit and inspection plan, interim, and final reports from the auditors.

The Council's Internal Audit was provided by a contractor, Bentley Jennison, which had been providing the service since April 2006. The internal auditors draw up a three-year strategic plan setting out the broad areas to be reviewed by internal audit as well as an annual plan of the key risk areas to be reviewed in that year. At the end of each audit review, reports would be provided on the findings to officers. Progress on the audit plan and an annual audit report summarising their work would be provided for the Sub-Committee.

In relation to the Statement of Accounts, each year the Authority had to produce a publicly available document (the Statement of Accounts) setting out comprehensive financial information about the activities of the Authority in the previous year. The role of the Sub-Committee was to review these accounts prior to publication.

Members asked questions about detailed aspects of the role. The Sub-Committee envisaged that the education and learning process for Members would need to continue over the coming months and across a number of meetings. It was suggested that the slides and briefing notes should be supplied to those Members not present and the Head of Finance offered to carry out one to one briefing if that would be of assistance.

4. EXTERNAL AUDIT INTERIM AUDIT REPORT 2005/06

The Sub-Committee considered a report of the Head of Finance bringing forward the 2005/06 External Audit Interim Audit Report to Members. The work of external audit was presented to the Council at least twice a year. The first main report was the Interim Audit Report, focusing on systems and governance issues and the second main report is the Annual Audit and Inspection Letter, which will be issued once all the 2005/06 work has been completed. The Sub-Committee noted that External Audit Reports tended to be made on an exception basis, focusing on weaknesses as opposed to strengths.

The Audit Commission had issued the following opinion based on their work to date, primarily concentrating on reviewing the financial systems and the ICT control environment:

"The Council has sound controls in place to prevent and detect material mis-statements in the accounts".

External Audit had, however, identified a number of areas where they believed controls could be strengthened and the high priority issues were summarised in the table in the covering report. Particular reference was made to the following three areas.

- Weak budgetary control process in respect of the capital programme
- Controls in relation to journals input directly into the general ledger
- Significant reliance on the Head of ICT in relation to monitoring and management of the ICT contract.

The Sub-Committee considered in more detail the areas the External Auditor has highlighted for consideration. It was noted that in some areas, significant additional controls could not be put in place without the need for additional resources. The management response to the points that the auditor had raised were also considered.

The report also indicated a satisfactory finding in relation to Internal Audit in the majority of cases. However, some issues of concern had been identified namely: where the work of External Audit had been delayed because documents had not been supplied on time, or insufficient reliance could be placed on the evidence provided by Internal Audit. The new Internal Auditors confirmed that they would endeavour to ensure that this would not occur in relation to their work

RESOLVED that:-

- (1) The 2005/06 External Audit Interim Audit Report be noted; and

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- (2) The attention of the Cabinet be drawn to the key risk areas identified by External Audit (with particular reference to those ranked as high priority) in relation to the areas referred to above.

5. STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL 2005/06

The Sub-Committee considered a report of the Head of Finance containing information/evidence to enable Members to:-

- Conduct a statutory review of the effectiveness of the Authority's system of internal control;
- Conduct a statutory review of the effectiveness of internal audit; and
- Comment on the draft statutory statement of internal control for 2005/06.

With regard to the review of Internal Audit, it was appropriate to assess their work in relation to four key questions and the report contained an evaluation of Internal Audit performance against these. Given the satisfactory evaluation, the Sub-Committee accepted that the system of Internal Audit has generally been effective during 2005/06.

With reference to the review of internal control, the guidance suggested that there were eight steps that must be met in order to meet the requirements of the Accounts and Audit Regulations. The report set out details of how well SBDC met these requirements. In a number of areas, more detailed evidence was needed to support meeting the requirements of the Accounts and Audit Regulations. This was set out in Appendix A to the report in the form of a checklist of types of assurance used, as set out in the CIPFA Practitioners Guide. With regard to assurances on the effectiveness of key controls, there were five key sources of assurance:-

- Management review
- The roles of the Chief Finance Officer and the Monitoring Officer
- Internal Audit
- External Audit
- Other review agencies and inspectorates.

Again the report set out in tabular form summaries of the assurances contained at SBDC from these sources in 2005/06. This had led to five main areas of concern arising from the analysis.

- Business continuity planning
- Risk Management
- Health and Safety
- Partnership arrangement
- ICT resilience

A resume of the response to these areas of concern was set out in the report.

Having reviewed the assurances detailed and received answers to questions and points of clarification, it was:

RESOLVED that:

- (1) There were no other significant gaps in control/assurance to add to the five identified in the report; and
- (2) The wording of the statement of Corporate Governance and Internal Control be approved.

6. STATEMENT OF ACCOUNTS 2005/06

The Sub-Committee considered a report of the Resources Portfolio Holder/Director of Resources presenting the 2005/06 Statement of Accounts. Approval of the accounts in accordance with the Accounts and Audit Regulations 2003 was required by 30 June 2006 and this responsibility had been delegated to the Sub-Committee. As the Statement of Accounts was a complex document, the covering report provided a commentary on each of the main sections of the accounts. The Head of Finance tabled a sheet of revisions and corrections that had been made since the accounts were circulated and answered questions from Members on matters of detail.

The Sub-Committee noted the following key points from the 2005/06 accounts:

- Actual overall spending of £6.25m was very much on line with the budget
- The Local Authority Business Growth Incentive Scheme (LABGI) grant of £223k had resulted in a significant boost to the level of reserves
- Capital expenditure was £2.01m compared to a budget of £3.22m, hence the action being taken to improve the management and monitoring of capital spending as referred to elsewhere in the minutes
- The balance on the Collection Fund was slightly higher than estimated as a result of the performance on the collection of Council Tax and Non Domestic Rates.
- The Authority's assets and liabilities remained healthy although the actuarial calculation of the pension fund deficit at 31 March 2006 was £15m (the statutory arrangements for the funding of the Pension Scheme means that this is not a significant cause for concern as the deficit will be made good by increased contributions over the remaining working life of employees).

RESOLVED that:-

- (1) The 2005/06 accounts be approved;
- (2) The accounts be signed by the Chairman of the Sub-Committee to signify completion of the Authority's approval process.

7. INTERNAL AUDIT PLAN 2006/07 - 2008/09

The Sub-Committee considered a report of the Head of Finance setting out the proposed Internal Audit Work Programme for 2006/07 - 2008/09 for approval.

Stephen Vinall, the Audit Manager from Bentley Jennison, introduced the Internal Audit Plan which he indicated had been drawn up after a review of service plans and risk registers and meetings with key staff and External Audit. From this review, the final content in the Audit Plan had been agreed with the Director of Resources and Head of Finance with a view to ensuring that the key governance and financial systems were reviewed annually, while other key risk areas were reviewed once over the three year period of the plan. It was proposed that the Audit Plan be reviewed at least annually to update the work programme for new and emerging issues.

The Sub-Committee received the Internal Audit Plan in full together with a summary of the service areas to be covered, which showed the estimated duration of each audit and the year of the Audit Plan in which it would be carried out.

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Arising from questions, reference was made to the auditing of the new contract for fly-tipping which was being entered into. At present, there was no specific provision for this in the Audit Plan.

RESOLVED that:-

- (1) The Internal Audit Work Programme for 2006/07 - 2008/09 be approved;
- (2) Internal Audit be asked to discuss with the Director of Resources and the relevant manager the possibility of an audit for the flytipping contract, and to report further; and
- (3) The Director of Resources bring forward a report on Risk Management to the next meeting.

8. EXTERNAL AUDIT AND INSPECTION PLAN 2006/07

The Sub-Committee considered a report of the Head of Finance presenting the External Audit and Inspection Work Programme for 2006/07. Mick West, the Audit Commission Relationship Manager, introduced the Audit and Inspection Plan and discussed how this would be carried out. The Sub-Committee noted the main elements of the proposed Audit and Inspection work as follows:-

- The accounts audit - providing an opinion on the Authority's statutory accounts
- Use of resources - an assessment on how well the Authority uses its resources and manages its performance
- Inspection work - covers relationship management issues, a direction of travel assessment and if appropriate a specific service inspection
- Certification of grant claims - checking claims (mainly housing benefit and NNDR).

The Sub-Committee noted from Appendix 3 to the Plan the planned outputs of the audit showing a timetable for each element of the work. The Sub-Committee was also informed of the inspection of Environmental Services due to be covered as part of the previous year's audit work, the on-site work for this is due to commence in February 2007.

RESOLVED that the 2006/07 External Audit and Inspection Plan be noted.

9. ADDITIONAL MEETING

Sean Kennedy, Principal Auditor for the Audit Commission, suggested that an additional meeting of the Sub-Committee be arranged to enable the Audit Commission to present their external audit report on the financial statement to this Sub-Committee.

RESOLVED that an additional meeting be arranged around the end of September 2006, the date to be fixed in consultation with Members.

10. FUTURE MEETINGS

The Sub-Committee accepted 11 December 2006 and 2 April 2007 as the dates of future meetings programmed and confirmed that the start time be fixed at 5 p.m.

11. TERMINATION OF MEETING

The meeting, having commenced at 5 p.m., terminated at 7.28 p.m.