

A G E N D A

Audit Committee

Date: **Friday, 30th September, 2005**

Time: **10.00 a.m.**

Place: **Committee Room 1, The Shirehall,
Hereford**

Notes: Please note the **time, date** and **venue** of the meeting.

For any further information please contact:

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**County of Herefordshire
District Council**

AGENDA

for the Meeting of the Audit Committee

Councillors Mrs. P.A. Andrews, A.C.R. Chappell, Mrs. J.P. French, T.M. James, R.I. Matthews, R.J. Phillips and R.M. Wilson

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1. CHAIRMAN	
To elect a Chairman of the Committee.	
2. APOLOGIES FOR ABSENCE	
To receive apologies for absence.	
3. NAMED SUBSTITUTES (IF ANY)	
To receive any details of Members nominated to attend the meeting in place of a Member of the Committee.	
4. DECLARATIONS OF INTEREST	
To receive any declarations of interest by Members in respect of items on the Agenda.	
5. MINUTES	5 - 8
To approve the minutes of the former Statutory Accounts Committee held on 11th July 2005.	
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To comment and note the report on the Council's Corporate Risk Management and Audit Planning.

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COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

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COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

MINUTES of the meeting of Statutory Accounts Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford on Monday, 11th July, 2005 at 2.00 p.m.

Present: Councillors: Mrs. P.A. Andrews, R.J. Phillips and R.M. Wilson

1. CHAIRMAN

RESOLVED: That Councillor R.J. Phillips be elected Chairman of the Committee for the ensuing Council year.

2. APOLOGIES

Apologies were received from Councillors G.V. Hyde and T.M. James.

3. NAMED SUBSTITUTES (IF ANY)

There were no named substitutes made.

4. DECLARATIONS OF INTEREST

There were no declarations of interest made.

5. STATEMENT OF ACCOUNTS

The County Treasurer presented the Council's Statement of Accounts for 2004/05 for examination, consideration and approval. He explained that it was a statutory requirement that the Statement of Accounts be formally approved by 31st July, 2005.

He drew the Committee's attention to a number of changes in the Statement of Accounts compared to last year, and stated that the Statement was taking an increasing amount of time and effort to produce each year to comply with the tighter timescale and high standard required.

He highlighted a number of points including the significant variations in the debtor and creditor accounts, with the level of the Council's long and short term debtors falling and the level of creditors rising over the previous year. He explained that the Council's fixed assets, such as road and bridges, showed an increase on last year's figures, but this figure was based on a technical valuation and did not necessarily reflect the open market value. The increase in reserves was highlighted, which, in part, was due to the delay in the Waste PFI contract and the increase in school balances in hand, including devolved budgets which can only be spent on capital projects.

In response to a linked question about budgets for the new Children's Service the Chief Executive advised that, a significant proportion of the budget continued to be ring-fenced to Education. The Treasurer confirmed that each school would be expected to keep a prudent reserve relative to the size of its budget. The Assistant County Treasurer (Accountancy and Exchequer Services) confirmed that Primary

Schools held a greater proportion of the reserves due to the large number of small schools in the County some of which held significant proportions of their budgets as reserves. Only one high school was in deficit.

The County Treasurer advised that a new provision of £108,000 was being set up to provide for a likely repayment of European Social Fund grant to the Learning and Skills Council in respect of project work with disaffected secondary school pupils.

He advised that the Statement of Internal Control would be considered by Cabinet for formal approval at its meeting on 14th July, 2005. As part of this process, Heads of Service would be required to sign a Statement of Assurance. The Head of Internal Audit explained the role and nature of the Statement of Internal Control.

He advised the Committee that, although fraud was not a particular issue for the Council complacency must be avoided. Therefore Group Leaders had been asked to ensure that Members were aware of the criteria and reminded of their role in identifying and reporting any incidents of suspected fraud. Staff would be advised of their responsibility on a regular basis.

The Committee noted that the Statement of Accounts would be advertised in the local press as well as being displayed at Info Centres and libraries and on the intranet and internet. A summary of the findings would appear in Herefordshire Matters. All notices would contain contact details for those seeking further information.

The Committee also noted that the external audit of accounts would not be completed until October with results expected in November. The Chief Executive expressed concern that the Audit Commission appeared to be awaiting the results of the Comprehensive Performance Assessment (CPA) before giving an opinion on the accounts rather than allowing the result of the audit to inform the CPA results.

The report contained details of redundancies and early retirements which showed an increase in costs in 2004/05 following a retirement at senior level.

The Committee noted a slight reduction in the number of bank accounts due mainly to the transfer of the residential homes to Shaw Homes.

The Treasurer concluded his presentation of the report by confirming that the Council's external auditors had issued an unqualified certificate in respect of the accounts for 2003/04.

A number of queries on the Statement of Accounts were raised by Members as follows:

Transfer Payments – The County Treasurer explained that these related mainly to Housing Benefit and Social Care.

Capital Programme – When asked if it was expected that the level of external funding would fall the County Treasurer explained that when projecting the forward capital programme he tended to be pessimistic about the amount of grants when making his initial forecasts and the position would become clearer as grants were awarded.

Pensions – When asked whether the Council was facing a deficit in its pension fund the County Treasurer confirmed that despite the net cash incoming continuing to exceed cash outgoing, thereby avoiding disinvestment during periods of market instability that he would anticipate increases in pension contributions for at least 10

years and possibly as long as 25 years as confirmed in advice from the Office of the Deputy Prime Minister (ODPM). The Chief Executive advised that the ODPM had withdrawn proposals to change the structure of pension funds but wondered for how long that position would be publicly sustainable.. He anticipated that there might be pressure to raise employee contributions if the benefits of the current scheme were to be maintained.

Fixed Assets – The Principal Accountancy Manager explained that Intangible Fixed Assets were those assets arising from money spent on capital projects which were not permanent e.g. IT equipment. Operational assets included those held by the Council in perpetuity for the benefit of the community e.g. parks and open spaces. Non-operational assess included shops, small holdings and industrial estates.

Right to Buy Receipts – The County Treasurer advised that the receipts from Right to Buy were reducing and that £1.1 million had been realised in 2004/05 which equated to approximately 40 properties (£25,000 per property). The Principal Accountancy Manager stated that Herefordshire Housing retain £20,000 per property.

Consolidated Revenue Account

Non-distributed costs – When asked why the non-distributed costs for 2004/05 did not show a credit, unlike the position in 2003/04 – it was explained that this was caused by a pension settlement in 2003/04 following staff transferring out of the Council scheme.

Gains and losses on repurchase of borrowing – The County Treasurer explained that this related to debt restructuring whereby the Council would pay back money borrowed at a higher rate of interest and borrow money at a lower rate. In order to do this, it was necessary to pay a premium on the initial loan.

The Collection Fund

The County Treasurer confirmed that the additional income from reducing the grant on empty properties and second homes exceeded the Council estimate of £300,000, and that any over payments would be offset against future Council Tax levies.

Empty Assessments – In response to a query the County Treasurer advised that, when there was a change of owner there was an entry in the accounts for the person leaving the property which was added back in as "redebts" when the new owner took possession. He agreed to investigate if this also happened if there was a change of tenant.

Consolidated Balance Sheet

The County Treasurer explained that the Government was keen to join up financial reporting across all sectors as illustrated by the consolidated balance sheet.

Short term borrowing – In response to a query the County Treasurer explained that short term borrowing was used to support the Capital Programme and also for cashflow. He stated that the limits were determined by Council, taking account of the Prudential Indicators.

Analysis of Fixed Assets – In response to query about who owned church-run school buildings and who would benefit from their sale, the Chief Executive advised that voluntary-aided schools would get a share of the proceeds and that where a reverter clause existed, any proceeds may revert to the original provider.

In response to a query about former Hereford and Worcester County Council Liabilities the County Treasurer advised that these would be written off from 2007.

Industrial Estates – Maintenance – The County Treasurer explained that a percentage of rental income from certain units was put aside for future maintenance costs.

School Balances – The Committee noted the total sum held under the Local Management of Schools arrangements amounted to £8,918,657 split between Primary Schools (6,012,074), Secondary schools (£2,495,605) and Special schools (£410,978).

Analysis of Government Grants – The Assistant Treasurer (Accountancy and Exchequer) agreed to get more information on the purpose of the grants from the Welsh Assembly and Countryside Council for Wales.

Trust Funds

The Chairman of the Committee was pleased to note that the number of trust funds had been reduced to a manageable level and the Committee noted that the Sylvia Short Trust was benefiting a number of schools in the County.

The Committee thanked the staff, both within the County Treasurer's Department and across the Council, for their work in compiling the Statement of Accounts.

Finally, the County Treasurer requested that the Committee consider a recommendation to Council to encompass its role within a newly established Audit Committee and for its membership to include senior Members of the Council.

RESOLVED:

- That
- (a) **The Statement of Accounts including the final Revenue and Capital Outturn for 2004/05 be approved;**
 - (b) **the formal signing of the Statement of Accounts by the Chairman of the Committee on behalf of the Council be approved;**
 - (c) **the information in respect of redundancies and early retirements be noted;**
 - (d) **the information in respect of Bank Accounts be noted;**
 - (e) **the Statement of Internal Control be noted; and**
 - (f) **it be recommended to Council that the Statutory Accounts Committee's remit be subsumed with a new Audit Committee and that its membership be established from senior Members of the Council and that the Constitution be amended as necessary.**

Note: The Statement of Accounts, including the Statement of Internal Control, were duly signed.

The meeting ended at 2.55 p.m.

CHAIRMAN

AUDIT COMMITTEE TERMS OF REFERENCE**Report By: County Treasurer****Wards Affected**

County-wide

Purpose

To advise Members on the Audit Committee's Terms of Reference.

Financial Implications

None

Background

3. The CPA 2005 Use of Resources advises that the Council has an Audit Committee, which is constituted as a full committee of the Council and is independent of both the Executive and Scrutiny functions.
4. It also advises that the Audit Committee has Terms of Reference, which are reviewed on an annual basis, taking into account relevant governance developments and how it integrates with other committees within the Council.
5. On 29th July 2005, Council approved the Terms of Reference for the Audit Committee, which are attached at Appendix1.
6. The County Treasurer is reviewing the relevant training requirements that committee members will need to fulfil their responsibilities. A work progress will need to be developed for the Committee.

Recommendation**THAT the report is noted.****BACKGROUND PAPERS**

None identified

AUDIT COMMITTEE TERMS OF REFERENCE

To provide independent assurance of the adequacy of the Council's risk management framework and the associated control environment. Also, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process through consideration of:

- (a) The terms of reference for Internal Audit.
- (b) The Internal Audit strategy.
- (c) The resourcing of Internal Audit.
- (d) The periodic plans of Internal Audit, progress against and material changes made to these plans, and any implications arising from their findings and opinion.
- (e) The adequacy of management response to Internal Audit advice and recommendations.
- (f) The Head of Internal Audit's annual report.
- (g) the arrangements made for co-operation between Internal Audit, External Audit and other review bodies
- (h) Periodic reports by External Auditors; and
- (i) Approval of the Council's Statement of Accounts and associated reports.

CIPFA POSITION STATEMENT ON AUDIT COMMITTEES**Report By: County Treasurer****Wards Affected**

County-wide

Purpose

To update Members on the CIPFA Position Statement on Audit Committees.

Financial Implications

None

Background

1. On 20th July the CIPFA Audit Panel issued a position statement on Audit Committees, which emphasised the importance of these being in place in all principal local authorities.
4. Although the Panel recognises that individual councils will have different arrangements for managing and governing themselves, it has identified four features common to all. These are summarised below:
 - A Statement of Purpose should be approved which:
 - Identifies core functions
 - Highlights good Audit Committee characteristics and
 - Highlights structure and administration good practice
5. The full position statement is attached at Appendix 1
6. The Position Statement is being developed into practical guidance by CIPFA, which will be made available shortly. Members will be updated as the position develops.

Recommendation**THAT the report be noted subject to any comments the Committee wishes to make.****BACKGROUND PAPERS**

None identified

CIPFA POSITION STATEMENT ON AUDIT COMMITTEES

AUDIT COMMITTEE PRINCIPLES IN LOCAL GOVERNMENT**POSITION STATEMENT**

This statement reflects the views of CIPFA's Audit Panel on the role of audit committees in local government. It emphasises the importance of audit committees being in place in all principal local authorities.

Audit committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and non-financial performance.

Guidance on implementing and running audit committees in local government lags behind other sectors. CIPFA will, therefore, be publishing further guidance, drawn from practical examples and experience of other parts of the public sector in 2005.

The way in which an audit committee is organised will vary depending on the specific political and management arrangements in place in any local authority. CIPFA's further guidance will explore how audit committees relate to local authorities different arrangements for managing and governing themselves. It is not, therefore, appropriate to prescribe any particular model. However, there are features that should be common to all:

1. A Statement of Purpose.
2. Core Functions.
3. Features.
4. Structure and Administration.

1. A Statement of Purpose

The local authority should formally approve a Statement of Purpose, along the following lines:

The purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, 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, and to oversee the financial reporting process.

CIPFA POSITION STATEMENT ON AUDIT COMMITTEES

2. Core functions

Audit Committees will:

- Approve (but not direct) Internal Audit's strategy, plan and performance.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Consider the reports of external audit and inspection agencies.
- Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.
- Be satisfied that the authority's assurance statements, including the Statement on Internal Control¹, properly reflect the risk environment and any actions required to improve it.
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

¹ Extract from CIPFA's guidance *The Statement on Internal Control – meeting the requirements of the Accounts and Audit Regulations 2003*. "The Accounts and Audit Regulations 2003 state that the relevant body is responsible for ensuring that the body (authority) has "a sound system of internal control". Members and member committee committees should therefore establish procedures to provide sufficient assurance for them to be able to attest to this".

CIPFA POSITION STATEMENT ON AUDIT COMMITTEES**3. Features**

Good audit committees will be characterised by:

- Strong chairmanship – displaying a depth of skills and interest².
- Unbiased attitudes - treating auditors, the executive and management equally.
- The ability to challenge the Executive (Leader/Chief Executive/Mayor or whatever combination) when required.
- A membership that is balanced³, objective, independent of mind and knowledgeable.

4. Structure and Administration

Although no single model of committee is prescribed, all should:

- Be independent of the Executive and Scrutiny functions.
- Have clear reporting lines and rights of access to other committee/ functions. For example, scrutiny and service committees, corporate risk management boards and other strategic groups.
- Meet regularly – at least four times a year with a quorum, and have a clear policy on those items to be considered in private and those to be considered in public.
- Meet separately with the external auditor at least once a year.
- Include, as regular attendees, the Responsible Finance Officer, Chief Executive, Head of Internal Audit and Appointed External Auditor and Relationship Manager. Other attendees may include the Monitoring Officer (for standards issues) and the Head of Resources (where such a post exists). The committee should have the right to call any other officers or agencies of the Council as required.

² There are many personal qualities needed to be an effective chair, but key to these are promoting apolitical open discussion, managing meetings to cover all business and encouraging a candid approach from all participants. An interest, and knowledge in financial and risk management, accounting concepts and standards, and the regulatory regime are also essential. A specialism in one of these areas would be an advantage.

³ The political balance of a formal committee of an authority will reflect the political balance of the council. However, balance in terms of apolitical attitudes is as important.

CIPFA POSITION STATEMENT ON AUDIT COMMITTEES

- Be properly trained to fulfil its role⁴.

⁴ Further guidance will be available on the skills, knowledge and personal attributes required of committee members but key areas for training would include financial and risk management, auditing and accounting concepts and standards, regulatory requirements for financial reporting, and corporate governance.

EXTERNAL AUDIT 2004/05**Report By: County Treasurer****Wards Affected**

County-wide

Purpose

To report to the Committee on the progress in relation to the Council's 2004/05 External Audit by the Audit Commission.

Reasons

The Audit Committee should be informed of the progress in respect of the 2004/05 external audit.

Background

1. The external audit is approaching its conclusion. There is no suggestion that the audit will not be completed well before the statutory deadline of 31st October 2005. The Audit opinion is expected to be signed following the meeting of this committee. The auditors have not, to date, identified any issues in relation to the actual completion of the audit.
2. A preliminary list of findings has been provided by the auditors but this list is very much subject both to amendment and additions. In addition the list, at the time this report was written, has not been discussed with the County Treasurer in detail. Further discussions will have taken place before the meeting of this Committee.
3. This report does not in any way affect the presentation of the annual Management Letter to members.
4. A summary of the findings to date is as follows:
 - a) There are five potential changes to the actual figures in the accounts. These relate to the accounting treatment of finance leases, the Council's capital contribution in previous years to the Courtyard Theatre, the purchase of the Council's new Revenues and Benefits system, an end of year payment due from the PCT and the interest charged to the accounts in respect of certain loans with repayment options. Whilst the accounts are technically incorrect and the amounts involved in these adjustments are substantial, with each one being in excess of half a million pounds, the changes are largely to the balance sheet with in most cases no financial loss or gain to the Council being involved. With regard to the finance leases, there may be an additional cost to the Council in 2004/05. Further information on this issue will be reported orally at the meeting.

Such changes, which are very much of a technical nature, are identified every year by the auditors and normal practice is to simply alter the accounts. A copy of the final 2004/05 Statement of Accounts, revised to take account of the changes, will be circulated to all members once printed. A full list of amendments will be reported to the next meeting of the committee.

- b) The auditors have raised a number of issues about the Statement of Internal Control and the related declarations signed by Directors and Heads of Service. Discussions are continuing on these issues but it is expected that some changes to the wording of the Statement of Internal Control will be required.
- c) The auditors have asked for a minor change in accounting treatment to be made in future years in respect of Whitecross PFI.
- d) The auditors have pointed out that the balance sheet treatment in respect of the Waste PFI may have to be changed depending on the outcome of the present renegotiations.
- e) The auditors are pointing out that the Council's Revenue Balances have increased significantly to a balance sheet figure as at 31st March 2005 of £14.491 million and that the increase is an issue for the Council. However, the report to Cabinet on 14th July (General Reserves, Provisions and Balances) confirms that the balances after commitments are taken into account are only £6.992 million which is only marginally above the 3% of net Revenue budget upper limit referred to in the report and does not take account of the full Social Care overspend being met from reserves.
- f) The auditors have stated they think school balances appear excessive. The Schools Forum approved, on 9th June 2005, proposals for dealing with any excessive balances.
- g) A Waste Management creditor was shown in the accounts incorrectly including VAT. The 2004/05 accounts are therefore overstated by £99,000.
- h) The creditor for HJS was underestimated by £376,000 although this did represent less than 2% of the total paid to HJS in 2004/05.
- i) The auditors have expressed concerns that the Council bank reconciliations are not up to date in 2005/06. There are problems in relation to Housing Benefits owing to interface between the Council's new Academy Benefits and Council Tax system and Cedar, the Council's Financial Management system, not working correctly. Urgent discussions are taking place to resolve these problems and these discussions are making good progress.

Recommendation

- THAT (a) the Audit Committee note the progress of the external audit and the preliminary list of issues raised;**
- and**
- (b) make recommendations if appropriate.**

BACKGROUND PAPERS

None identified

AUDIT SERVICES ASSURANCE REPORT 2004/05

Report By: Principal Audit Manager

Wards Affected

County-wide

Purpose

To consider the Audit Services Assurance Report for 2004/05.

Financial Implications

None.

Background

1. The report to Cabinet on 1st September 2005 is appended. Following consideration by Cabinet, the report was referred to the Audit Committee for consideration.

Recommendation

THAT the Assurance Report is considered by the Audit Committee.

BACKGROUND PAPERS

None identified

**CORPORATE INTERNAL CONTROL AUDIT OPINION
2004/05**

Report By: Principal Audit Manager

Wards Affected

County-wide

Purpose

To report on the approach and level of the Audit Opinion on the Council's overall internal control environment.

Financial Implications

None

Background

1. The CIPFA Code of Practice for Internal Audit in Local Government states that the Head of Internal Audit's formal annual report to the organisation should include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment.
3. The Audit Strategy approved by Cabinet on 14th April 2005 sets out the approach to demonstrate the resilience of the Audit Opinion. The matrix in Appendix 1 linked to the Audit Strategy sets out how the Council's overall opinion was reached for 2004/05.
4. The Head of Internal Audit has reported a satisfactory system of internal control.

Recommendation

THAT the report is noted subject to any comments the Committee wishes to make.

BACKGROUND PAPERS

Audit Services Strategy

CORPORATE INTERNAL CONTROL AUDIT OPINION MATRIX 2004/5

% Weighting		2004/05 Opinion	2004/05 Weighting
25	Financial standards, which will cover the Council's Fundamental Systems	Satisfactory	20
10	Non-Fundamental Systems	Satisfactory	8
10	Corporate Governance arrangements to include Anti-Fraud activity	Satisfactory	7
10	Performance Management/Best Value Performance Indicators	Satisfactory	8
15	Risk Management arrangements	Satisfactory	12
15	ICT protocols and controls	Marginal	10
2.5	Establishment visits	Unsatisfactory	0
2.5	Verification and probity audits	Marginal	1
2.5	Other corporate issues as they arise	Good	2.5
2.5	Level of recommendations agreed for action by management	Satisfactory	2
5	Results of recommendations follow up	Marginal	2.5
100			73

KEY	
Good	85 to 100
Satisfactory	65 to 84
Marginal	51 to 64
Unsatisfactory	31 to 50
Unsound	1 to 30

**FUNDAMENTAL SYSTEMS, AUDIT OPINIONS AND
RESULTING RECOMMENDATIONS****Report By: Principal Audit Manager****Wards Affected**

County-wide

Purpose

To update Members on the Council's Fundamental Systems, the types of Audit Opinion given by Audit Services and the proposed action that will be taken by Audit Services on key (i.e. critical) audit recommendations.

Financial Implications

None

Background

3. The CPA Use of Resources requires the Council to have procedure notes/manuals for the systems identified as being business critical (Fundamental) and that procedure notes/manuals should be updated at least annually.
4. In consultation with the Audit Commission, the Council has currently identified seventeen systems as business critical and these are listed in Appendix 1. All Fundamental Systems are reviewed on an annual basis and the procedure notes updated. To comply with International Standards from 2005/06, all Fundamental Systems will also be flowcharted. This is currently in progress.
5. As part of the audit process, all audit reviews are given an audit opinion ranging from unsound to good. In addition, audit recommendations are ranked in relation to their level of risk. For 2005/06, an additional rank Level 1 Critical has been added. It is intended that all recommendations at this level and the actions taken by management will be reported to the Audit Committee. Definitions relating to each opinion and recommendation level is attached in Appendix 2.

Recommendation

THAT the report is noted, subject to any comments the Committee wishes to make.

BACKGROUND PAPERS

None identified

FUNDAMENTAL SYSTEMS 2005/06

The following systems have been identified as Fundamental Systems:

- Corporate Governance
- Salaries and Wages (Non-education)
- Risk Management
- Salaries and Wages Education
- Corporate Statement of Internal Control
- Treasury Management
- Asset Register
- Education Financial Management System
- FMS Budget Creation, Monitoring and Reporting.
- FMS Feeder Systems
- Creditors
- Bank Reconciliation
- Sundry Debtors
- Council Tax
- Housing Benefit
- NDR
- Cash and Deposit

CLASIFICATION OF INTERNAL CONTROL LEVELS AND RANKING OF RECOMMENDATIONS

Quantification and Classification of Internal Control Levels

Control Level	Definition
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified; changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

The Audit Opinion is based on several factors including the number of Level 1 and, to a lesser extent, Level 2 recommendations. Weighting is given to different aspects of the Audit, e.g. a high weighting for budgetary control. It is expected that larger systems and establishments will receive higher numbers of recommendations and allowance is made for this.

Ranking of Recommendations

Rank	Definition
1 Critical	ACTION IS REQUIRED URGENTLY OR WITHIN AN AGREED TIMESCALE. Non-compliance will be a high risk to the Council. These recommendations will be shown as Rank 1 (Critical) on the Recommendation Sheet and highlighted under the Opinion paragraph in the Main Report.
1	TIMELY ACTION REQUIRED. Necessary owing to statutory obligation, legal requirement, Authority Policy, or risk of loss or damage.
2	Necessary for sound internal control and confidence in the system to exist – medium risk, should be pursued in the short to medium term, ideally within six months.
Good Practice	Suggestions made that should improve the efficiency or security of the system or establishment. These suggestions will be shown in Appendix 3, not as part of the Recommendation Sheet. They will not be considered when giving an Audit Opinion.

CORPORATE RISK MANAGEMENT AND AUDIT PLANNING

Report By: Principal Audit Manager

Wards Affected

County-wide

Purpose

To update Members on the link between the Council's Corporate Risk Management and Audit Planning.

Financial Implications

None

Background

1. The Accounts and Audit Regulations 2003 established requirements related to systems of internal control and the review and reporting of these systems. Regulation 4 of the Accounts and Audit Regulations 2003 requires that from 1st April 2003 *'the relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk'*.
2. On 15th April 2004 Cabinet approved the revised Risk Management Strategy.
3. The Code of Practice for Internal Audit in Local Government in the United Kingdom states that 'Internal Audit should prepare a risk-based audit plan designed to implement the audit strategy, taking account of the organisation's risk management process'.
4. The approach to preparing the Annual and Strategic Plan is fundamentally based upon the Council's Risk Strategy and covers risk assessments in the following areas:
 - Fundamental Systems.
 - Non- fundamental Systems.
 - Corporate Governance arrangements to include Anti-Fraud arrangements.
 - Best Value Performance Indicators.
 - Risk Management arrangements.
 - ICT protocols and controls.

Further information on the subject of this report is available from
Tony Ford, Principal Audit Manager, (01432) 260425

- Establishment visits.
 - Verification and Probity Reviews.
5. Each area is assessed for potential risks as classified utilising 'Traffic Lights' signposting, with Red being high risk, Amber being medium risk and Green being low risk. In addition, within each risk area, consideration is also given to residual risk for specific functions or establishments based on their last Audit opinion and current knowledge, including risk management reports to the Corporate Management Board.
 6. The final version of the Audit Plan is cross-referenced to the Corporate and Directorate Risk Registers and was approved by Cabinet on 14th April 2005.

Recommendation

THAT the report is noted subject to any comments the Committee wishes to make.

BACKGROUND PAPERS

Audit Strategy