

A G E N D A

Audit Committee

Date: **Monday, 20th February, 2006**

Time: **10.00 a.m.**

Place: **The Council Chamber,
Brockington, Hereford.Council
Chamber, Brockington**

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

For any further information please contact:

Mrs. S Cole

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**County of Herefordshire
District Council**

AGENDA

for the Meeting of the Audit Committee

To: Councillor A.C.R. Chappell (Chairman)
Councillor Mrs. P.A. Andrews (Vice-Chairman)

Councillors Mrs. J.P. French, T.M. James, R.I. Matthews and R.J. Phillips

	Pages
1. APOLOGIES FOR ABSENCE	
To receive apologies for absence.	
2. NAMED SUBSTITUTES (IF ANY)	
To receive details any details of Members nominated to attend the meeting in place of a Member of the Committee.	
3. DECLARATIONS OF INTEREST	
To receive any declarations of interest by Members in respect of items on the Agenda.	
4. MINUTES	1 - 4
To approve and sign the minutes of the meeting held on 30th September, 2005.	
5. COMPLETION OF THE ACCOUNTS 2006/06	5 - 14
To report to the Audit Committee on issues surrounding this years closedown of accounts.	
6. CIPFA GUIDANCE ON AUDIT COMMITTEES	15 - 32
To advise Members on the CIPFA Guidance on Audit Committees.	
7. AUDIT SERVICES INTERIM ASSURANCE REPORT 2005/06	33 - 38
To update Members on the progress made in relation to the Audit Plan and to bring to their attention any key internal control issues. In addition the report updates Members on the actions or the current position on key issues raised for 2004/5 that required attention.	
8. STATEMENT OF INTERNAL CONTROL ASSURANCE FRAMEWORK PROTOCOLS	39 - 50
To advise Members on the format of the Statement of Internal Control Assurance Framework Protocols.	

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COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

BROCKINGTON, 35 HAFOD ROAD, HEREFORD.

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MINUTES of the meeting of Audit Committee held at Committee Room 1, The Shirehall, Hereford on Friday, 30th September, 2005 at 10.00 a.m.

Present:

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

In attendance: Councillor R.M. Wilson

1. **CHAIRMAN**

RESOLVED: That Councillor ACR Chappell be appointed Chairman for the ensuing year.

2. **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors: RI Matthews and Mrs SJ Robertson.

3. **NAMED SUBSTITUTES**

Councillor Mrs AE Gray substituted for Councillor RI Matthews.

4. **DECLARATIONS OF INTEREST**

There were no declarations of interest made.

5. **MINUTES**

RESOLVED: That the Minutes of the former Statutory Accounts Committee meeting held on 11th July, 2005 be approved as a correct record and signed by Councillor RJ Phillips.

NOTE: The Chief Executive explained to the Committee that Councillor RM Wilson was not a Member of the Committee but was in attendance as Cabinet Member (Resources). This was to ensure independence of the Committee to the executive. It was noted that to maintain the independent status of the Committee the Chairman should not be a member of the executive.

6. **AUDIT COMMITTEE TERMS OF REFERENCE**

The Principal Audit Manager firstly advised the Committee of a typographical error in the last sentence of paragraph six, which should read "a work programme will need to be developed for the Committee".

The Comprehensive Performance Assessment (CPA) 2005 report "Use of Resources" advises that the Council forms an Audit Committee, which is constituted as a full Committee of the Council and independent of both the Executive and Scrutiny

functions. Members were reminded that although there was no Audit Committee previously, this function was carried out by Cabinet and the Strategic Monitoring Committee. Terms of Reference for the Committee, which were approved by Council in July 2005 were outlined in the Appendix to the report. Members noted the necessity to review the Terms of Reference annually. To carry out the functions of the Committee some training requirements will be needed and a work programme developed.

The election of a Chairman who was not a member of the Executive would help to ensure the independence of the Committee. The Committee will report directly to Council. Members proposed that for the future they would like the Committee to be set up similarly to the Standards Committee with a Chairman who is not a Councillor.

RESOLVED: That the report be noted.

7. **CIPFA POSITION STATEMENT ON AUDIT COMMITTEES**

The Principal Audit Manager outlined to Members the importance that CIPFA have put on Audit Committees and how they have identified four features, which they believe should be common to all local authorities. These are:

- A Statement of Purpose should be approved which:
 - ❖ Identifies core functions;
 - ❖ Highlights good Audit Committee characteristics; and
 - ❖ Highlights structure and administration good practice.

A full position statement from CIPFA was attached to the report. It was recognised that further guidance on the implementing and running of Audit Committees was needed and the Position Statement is being developed into practical guidance by CIPFA and will be made available shortly when Members will be briefed. Members discussed further the issue of having an independent Chairman, who was not a Councillor, for the Committee.

RESOLVED: That the report be noted.

8. **EXTERNAL AUDIT 2004/05**

The Assistant County Treasurer (Accountancy and Exchequer Services) reported to the Committee on the Council's External Audit for 2004/05 by the Audit Commission. He advised Members of the points raised by External Audit that needed to be addressed prior to the audit being finished. He stated that the audit was approaching its conclusion and would be completed by the statutory deadline of 31st October 2005.

Members noted the extra work that had been done by staff to complete the audit in time, and requested that the appropriate staff be complimented.

RESOLVED: That the progress of the external audit and the preliminary list of issues raised be noted.

9. **AUDIT SERVICES ASSURANCE REPORT 2004/05**

The Principal Audit Manager advised Members that the CIPFA code of practice for internal audit requires an annual report to be presented to Members that gives an opinion on the Council's internal control environment. A report on the Audit Services Assurance report for 2004/05, was presented to Cabinet on 1st September, 2005. The Annual Report sets out:

- Action taken on key issues identified during 2003/04;

- A summary of work undertaken;
- Issues raised in the Statement of Internal Control;
- Compliance with the Code and Audit Performance; and
- The Audit Opinion – which is satisfactory.

Two areas for attention are: the Council's overall disaster recovery arrangements and the overspend in Social Care. To address the overspend, an action plan has been put in place to minimise risk, including:

- Control of spending decisions relating to non-staffing budgets.
- Modernisation of the Learning Disability Service to include assessment practice improvements, accommodation and modernisation of day opportunities.
- Negotiations have been agreed with the Primary Care Trust on risk sharing.

Members discussed the report and that the Emergency Planning Unit might need to report directly into the Audit Committee. It was agreed that for the future any serious issues for the Council would be drawn to the Cabinet Member's attention.

RESOLVED That the report be noted.

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

The Principal Audit Manager informed Members that the CIPFA Code of Practice for Internal Audit in Local Government states that an annual report on the authority should include an opinion on the overall adequacy and effectiveness of the internal control environment. The Audit Strategy, approved by Cabinet on 14th April 2005, sets out the approach to demonstrate the resilience of the audit opinion. The report sets out how the Council's overall opinion was reached for 2004/05.

The Principal Audit Manager advised the Committee of the type of visits carried out to schools, libraries and other establishments to examine the operating processes being carried out. He advised that all secondary schools had to reach a certain final standard and have acted upon any recommendations made to the school. Finally, he stated that any recurring themes in the audit for schools would be reported to the Herefordshire Schools Forum for action.

RESOLVED: That the report be noted.

11. **FUNDAMENTAL SYSTEMS, AUDIT OPINIONS AND RESULTING RECOMMENDATIONS**

The Principal Audit Manager gave an update on the Council's fundamental systems, the types of audit opinion given by Audit Services and the proposed action to be taken on key audit recommendations. He added that the CPA Use of Resources report requires the Council to have procedure notes / manuals for the systems identified as being business critical and that these should be updated at least annually. The report listed seventeen systems the Council has currently identified as business critical.

Members' attention was drawn to the critical areas of concern together with recommended actions to be taken by the management. The Principal Audit Manager stated that in such cases he would formally write to the relevant Director outlining the situation. This would be followed by an internal audit within two weeks. In such circumstances External Audit Services would work closely with the internal audit department.

RESOLVED: That the report be noted.

12. CORPORATE RISK MANAGEMENT AND AUDIT PLANNING

The Principal Audit Manager reported the approach taken by Audit Services regarding the risk-based Audit Plan and its link to the Council's Corporate Risk Management. He advised that the revised Risk Management Strategy had been approved by Cabinet on 15th April, 2005. He added that the Risk Strategy covered 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.
- Establishment visits.
- Verification and probity reviews.

It was noted that each area was assessed for potential risks as classified utilising 'traffic lights' signposting. Additionally within each area consideration is 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.

RESOLVED: That the report be noted.

The meeting finished at 11.10 am

CHAIRMAN

COMPLETION OF THE ACCOUNTS FOR 2005/06**REPORT BY: DIRECTOR OF RESOURCES****Wards Affected**

County-wide

Purpose

To report to the Audit Committee on issues surrounding this years closedown of accounts.

Considerations

1. Legally the requirement under the Accounts and Audit Regulations 2003 is to have the 2005/06 Statement of Accounts approved by our Audit Committee by no later than 30th June. A meeting of the Audit Committee has been arranged for 30th June 2006.
2. For the 2004/05 Accounts we met this requirement in terms of preparing the Statement of Accounts although the Statutory Accounts Committee did not actually meet to approve the accounts until 11th July.
3. The 2005/06 Closedown timetable meets the statutory requirement in full. We remain committed to closing the accounts as soon as possible after the year end.
4. The completion of the external audit and the final publication of the Statement of Accounts will have to be completed by 30th September this year compared with 31st October last year.
5. Please note the following planned changes and improvements to the 2005/6 Statement of Accounts:-
 - (a) The format and design of the Statement of Accounts is being reviewed and updated.
 - (b) A much shorter summary accounts document or leaflet will be produced
 - (c) Steps will be taken to meet in full the CPA Use of Resources requirement that 'A process of consultation has been carried out with a range of stakeholders to establish their requirements in respect of the publication of summary accounts'.
 - (d) Various changes to meet the changing requirements of the appropriate codes of practice including the publication of the Whole Government Accounts will be necessary.
6. Timetables for the closedown process and for production of the Statement of Accounts are attached.

Further information on the subject of this report is available from
David Keetch, Assistant County Treasurer on 01432 260227

Recommendation

THAT the Audit Committee endorse the report.

BACKGROUND PAPERS

None identified

Statement of Accounts & WGA 2005/06 – Information Requirements

Task	Completion date		Responsible officer
General			
Analysis of revenue and capital grants received (cash) – to period 9 to KM	Wed	8 th Feb	Accountants
Analysis of revenue and capital grants received (cash) - to period 12 to KM	Wed	17 th May	Accountants
Debtors and creditors lists including WGA and Related party summaries agreed to Cedar - sent to KM	Fri	26 th May	Accountants
WGA grant summary sent to KM	Fri	26 th May	Accountants
WGA 'other' income summary to KM	Fri	26 th May	Accountants
WGA Counter-party agreements to HF	Fri	26 th May	Accountants
Foreword			
PFI notes	Fri	3 rd Mar	DK
Capital Programme note including Prudential borrowing	Fri	19 th May	SC/JS
Council's Borrowing note	Fri	19 th May	SBch
Analysis of over/under spends	Fri	26 th May	HF
Summary of Programme areas out-turn (or revised foreword format)	Fri	26 th May	DK
Council's reserves note	Fri	26 th May	DK
Service areas subjective analysis	Fri	2 nd Jun	HF
Education subjective analysis	Fri	2 nd Jun	MG
Bar Charts analysing gross and net expenditure & income	Fri	9 th Jun	HF
Jarvis & Owen Williams notes	Wed	14 th Jun	CS/DK
Pensions note	Wed	14 th Jun	HF
Statement of Responsibilities	Fri	13 th Jan	HF
Statement of Internal Control	Fri	12 th May	TF
Statement of Accounting Policies			
Accountants to notify HF on any significant estimated figures to be included in the accounts and the estimation technique to be used.	Fri	24 th Feb	Accountants
Paragraphs on accruals, reserves & provisions, grants, stocks & wip, allocation of support services, pensions, car & computer loans, car leasing, exceptional & extraordinary items, estimation techniques.	Fri	3 rd Mar	HF
Paragraphs on fixed assets, capital receipts, capital accruals, basis for redemption of debt, investments, leases,	Fri	3 rd Mar	SC, SBch, JS
PFI note	Fri	3 rd Mar	DK/SC
Jarvis note	Fri	3 rd Mar	HF
Consolidated Revenue Account			
Collection fund transfers (surplus and precept)	Wed	10 th May	KM

Journal FRS 17 adjustments	Wed	10 th May	HF
Amra & debt financing items	Wed	10 th May	SC
ICT accounts cleared to CRA	Mon	15 th May	HF/JM
Transfer programme areas to CRA	Mon	15 th May	HF
Investment income	Tues	16 th May	SC
Appropriations to CFR	Tues	16 th May	SC
Adjustments to reserves	Tues	16 th May	HF
Consolidated Revenue account completed	Wed	17 th May	HF
BVACOP analysis of Service areas for CRA sent to HF (unless new Cedar structure in place)	Fri	19 th May	Accountants
Notes to the Consolidated Revenue Account			
Goods & Services Act – analysis of debtors accounts to period 10	Mon	28 th Feb	CJ
Goods & Services Act – analysis of debtors accounts to period 12	Fri	21 st Apr	CJ
Undischarged obligations from long-term contracts e.g. PFI	Fri	21 st Apr	AT/DK
LPSA	Fri	28 th Apr	AT
PFI	Fri	28 th Apr	AT/DK
Amra	Wed	10 th May	SBch
MRP	Wed	10 th May	SBch
Precepts & Levies	Wed	24 th May	HF
Section 137	Fri	26 th May	SS
Pooled budget/Section 31 notes	Fri	26 th May	SM/PT
Leases	Fri	26 th May	KM, AD, SC
Members allowances	Fri	26 th May	ASm
Publicity	Fri	2 nd Jun	KM
Building control account	Fri	2 nd Jun	GE
Goods & Services Act returns from service areas	Fri	2 nd Jun	Accountants
External Audit fees	Fri	2 nd Jun	HF
Goods & Services Act note checked and consolidated	Wed	7 th Jun	CJ
Trading operations	Fri	9 th Jun	KM, JM
Related party transaction note	Fri	9 th Jun	KM
Pensions	Wed	14 th Jun	HF, ASm
Employees remuneration	Wed	14 th Jun	ASm
Collection Fund			
Information from Ctax for notes	Fri	28 th Apr	RM
Fund accounts and notes	Mon	19 th Jun	KM
Balance Sheet	Fri	19 th May	HF
Notes to the Balance Sheet			
Valuations note	Wed	19 th Apr	SBch
Insurance provision note	Fri	28 th Apr	DK/AR
Contingent liabilities	Fri	5 th May	KO'K
Capital commitments	Fri	19 th May	JS
Movement on deferred charges	Fri	19 th May	SBch
Debt liability	Tue	23 rd May	SC
Deferred credits	Tue	23 rd May	SC

Capital contributions deferred	Tue	23 rd May	JS
Fixed asset restatement account	Tue	23 rd May	JS
Capital financing account	Tue	23 rd May	JS
Usable capital receipts	Tue	23 rd May	JS
Long-term debtors	Wed	24 th May	HF
Stocks & Wip	Wed	24 th May	HF
Provisions	Wed	24 th May	HF
Movement on reserves	Wed	24 th May	HF
Movement in Fixed Assets	Thur	25 th May	SBch
Analysis of fixed assets	Thur	25 th May	SBch
Information on intangible assets	Thur	25 th May	SBch
Leases	Fri	26 th May	KM, AD, SC
Provision for bad debts	Fri	26 th May	HF
Long-term investments	Fri	2 nd Jun	SBch
Short term investments	Fri	2 nd Jun	SBch
Borrowing analysis	Fri	2 nd Jun	SBch
Depreciation note – methods, useful lives, total depreciation etc	Fri	2 nd Jun	SBch
Debtors and creditors note	Fri	9 th Jun	KM
Information on euro costs?	Fri	9 th Jun	JM
Schools balances	Fri	9 th Jun	MG
Related party transaction note	Fri	9 th Jun	KM
Pensions	Wed	14 th Jun	HF
Capital Expenditure & Financing	Fri	19 th May	JS
Statement of Total Movement in Reserves			
Movement on Capital reserves	Wed	24 th May	JS
Movement on revenue reserves	Wed	24 th May	HF
Movement on pensions reserve	Wed	14 th Jun	HF
Pensions note	Wed	14 th Jun	HF
Cash Flow Statement			
Precepts paid	Fri	31 st Mar	HF
RSG and redistributed NNDR	Fri	31 st Mar	HF
Housing benefit cash payments	Fri	21 st Apr	HF/SB
DWP grants received	Mon	8 th May	HF
C tax and NNDR receipts	Wed	10 th May	KM
Analysis of government grants	Fri	26 th May	KM
Cash book analysis adjusted for internal transfers	Fri	26 th May	LB
Schools cash analysis	Fri	26 th May	MG
Interest paid and received	Fri	9 th Jun	SBch
Purchase of fixed assets	Fri	9 th Jun	JS
Other capital cash payments	Fri	9 th Jun	JS
Sale of fixed assets	Fri	9 th Jun	JS
Other capital cash receipts	Fri	9 th Jun	JS
Employee cash figures (gross pay, 'ers NI, 'ers super)	Mon	12 th Jun	KM
Movement in short-term investments	Mon	12 th Jun	SBch
Repayments of amounts borrowed	Mon	12 th Jun	SBch
New loans raised	Mon	12 th Jun	SBch
Reconciliation of revenue activities cash flow to	Thur	22 nd Jun	HF

CRA			
Other cash flow notes	Thur	22 nd Jun	HF
Trust Funds			
Miscellaneous Trusts	Fri	2 nd Jun	HF
Sylvia Short Trust	Wed	14 th Jun	SBch
Education figures and notes	Wed	14 th Jun	MG
Buchanon Trust figures and notes	Fri	16 th Jun	KM

Abbreviations for Responsible Officers

SB – Susie Binns SBch – Sam Birch LB – Lin Bradford SC – Steve Cameron AD – Angelina Durham GE – Greg Evans TF – Tony Ford HF- Heather Foster MG – Malcolm Green CJ – Christine Jones	DK – David Keetch SM – Sarah Meredith RM – Rob Morgan JM – Joe Morris KM – Karen Morris KO’K – Kevin O’Keefe AR – Andrew Rewell ASm – Alun Smith JS – Josie Smith SS – Shane Smith	CS – Cathy Stokes AT – Andrew Tanner PT – Pat Turvey
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Closedown Timetable 2005/06

Task	Completion date		Responsible officer
Prepare pro forma Statements including SORP changes	Fri	13 th Jan	HF
Issue final accounts timetable	Fri	20 th Jan	HF/DK
Send e-mail to check whether balancing of holding codes and cash/refunds are up to date	Mon	30 th Jan	HF
Closedown timetable e-mailed to External Audit	Mon	13 th Feb	HF
Issue feeder timetable/year-end guidance notes to Directorates and accountants	Mon	13 th Feb	HF/DK
Report to CMB on Closedown including timetable			SR/DK
Report to SMT on Closedown including timetable			DK
Report to Audit Committee of Closedown timetable	Mon	20 th Feb	SR/DK
Allocation bases for recharging corporate costs to be provided to GE	Mon	27 th Feb	JBt, StM
Allocation bases for recharging corporate training to be provided to HF	Mon	27 th Feb	AA
Allocation bases for recharge of IT/IEG base budget to be agreed	Mon	27 th Feb	JM
Allocation bases for recharge of INFO to be agreed	Mon	27 th Feb	GE
Allocation bases for recharge of Property services to be agreed	Mon	27 th Feb	CB/KM
Letters to Officers and Members re related party disclosures (to be returned by 31 st March)	Wed	1 st Mar	K O'K
Supply FRS17 data to WCC	Wed	1 st Mar	ASm/DK
Out of date creditor cheques to be processed	Fri	17 th Mar	ASm/AU
Last date for receipt of sundry debtor account requests for 2005/06 in Revenues at the Town Hall	Mon	20 th Mar	Directorates
Request sent to Members Services to supply details of any business interests recorded by members in Register of Interests	Fri	31 st Mar	DK
Stock valuations to be completed	Fri	31 st Mar	Directorates
Capital charges for Support services and Admin buildings including estimated deferred charges	Fri	31 st Mar	SBch
Balancing and posting government grants to CRA	Fri	31 st Mar	HF
Accommodation recharges	Mon	3 rd Apr	KM
Completion of 2005/06 valuation programme for properties	Mon	3 rd Apr	AH
Provision of valuation schedules to Technical section	Tue	4 th Apr	AH
Impairment review information sent to Technical section	Fri	7 th Apr	AH
Support Services SLA charges	Fri	7 th Apr	HF
Final date for inputting Direct Debits	Fri	7 th Apr	ASm/AU
BT bulk bill – 4 th quarter	Fri	7 th Apr	JM
Journals for stock valuations to be processed	Fri	7 th Apr	JM, GE, CS
CRB recharges to Directorates	Fri	7 th Apr	ASm

POP accrual journal circulated to accountants	Fri	7 th Apr	DE
Analysis of 2005/06 pension payments to WCC across Cedar codes	Mon	10 th Apr	ASm
Car loan accounts balanced and journals completed	Wed	12 th Apr	CJ
Finalise spreadsheets for FRS 17 calculations	Wed	12 th Apr	HF
Completion of central telephone charges	Tue	18 th Apr	JM
Journals for depreciation to be processed	Tue	18 th Apr	SBch
Journals for notional interest to be processed	Tue	18 th Apr	SBch
Journals for impairment to be processed	Tue	18 th Apr	SBch
Clear Insurance holding codes	Tue	18 th Apr	AR
Recharge of IT/IEG base budget cost centres (plus budget)	Tue	18 th Apr	JM
Final ICT SLA and development charges	Tue	18 th Apr	JM
Allocation of corporate costs (plus budget)	Tue	18 th Apr	GE
Allocation of corporate training (plus budget)	Tue	18 th Apr	HF
Allocation of Property services (plus budget)	Tue	18 th Apr	KM
Last date for petty cash claims to be received by Payments section	Wed	19 th Apr	Directorates
Last date for receipt in Payments section of invoices to be coded in 2005/06	Wed	19 th Apr	Directorates
Recharge of IT capital and support services charges to programme areas	Wed	19 th Apr	JM
Adjustments to POP accrual to be notified to DE	Thu	20 th Apr	Accountants
Jarvis March charges coded to Cedar	Thu	20 th Apr	CS
POP accrual posted	Fri	21 st Apr	DE
Allocation of INFO charges (plus budget)	Fri	21 st Apr	GE
Last date for receipt of internal transfers into accountancy	Fri	21 st Apr	Directorates
Review level of insurance provision and adjust as appropriate	Fri	21 st Apr	DK/AR
Council Tax and NNDR year end information to be received by accountancy	Fri	21 st Apr	RM
Old debtors system balancing information to accountancy	Fri	21 st Apr	AC
Housing & Council Tax Benefit expenditure figures to accountancy	Fri	21 st Apr	SB
Print of creditors control account produced and reconciled to Cedar	Fri	21 st Apr	HF/DE
Print of debtors control account produced and reconciled to Cedar	Fri	21 st Apr	AC/DE
Period 13 closed and re-opened for historic journals only	Fri	21 st Apr	DE
Last date for transactions relating to Social Care section 31 arrangements	Fri	21 st Apr	PT/service accountants
Corporate property pool allocations	Tue	25 th Apr	KM
Last date for receipt for debtors and creditors lists to accountants	Wed	26 th Apr	Directorates
Journals for property revaluations to be processed	Fri	28 th Apr	SBch
Legal services to provide list of contingent liabilities	Fri	5 th May	KO'K
Receive FRS 17 information from WCC	Fri	5 th May	WCC

Last date for posting entries to schools	Fri	5 th May	Directorates/ service accountants
Holding codes cleared	Mon	8 th May	Accountants
Housing Benefit subsidy figures to accountancy	Mon	8 th May	SB
Verify FRS17 information	Tue	9 th May	HF
Journal FRS 17 adjustments	Wed	10 th May	HF
Collection fund accounts completed	Wed	10 th May	KM
Amra & debt financing items	Wed	10 th May	SC
Capital accounts closed	Wed	10 th May	JS
Journals for capital financing completed	Thu	11 th May	JS
Deferred charges (and grants) written off to revenue accounts	Thu	11 th May	SBch
Consolidated bank reconciliation completed	Fri	12 th May	LB
Trust Fund accounts closed	Fri	12 th May	MG, KM, HF
Revenue Accounts closed	Fri	12 th May	HF
Statement of Internal Control finalised	Fri	12 th May	TF
ICT accounts cleared to Consolidated Revenue Account	Mon	15 th May	HF/JM
Transfer programme areas to CRA	Mon	15 th May	HF
Adjustments to reserves	Tue	16 th May	HF
Investment income	Tue	16 th May	SC
Appropriations to CFR	Tue	16 th May	SC
Consolidated Revenue account completed	Wed	17 th May	HF
BVACOP analysis of Service areas for CRA sent to HF (unless new Cedar structure in place)	Fri	19 th May	Accountants
Balance Sheet completed	Fri	19 th May	HF
Final Out-turn report to CMB	Tue	6 th Jun	DK
Final date for receiving information for notes to the accounts (see detailed schedule)	Fri	16 th Jun	See Statements timetable
Statement of Accounts finished	Fri	23 rd Jun	HF
Audit Committee	Fri	30 th Jun	SR/DK/HF
Last date for Working papers for Audit Commission in electronic format e-mailed to HF	Mon	17 th July	Accountants
Last date for advert of public inspection to appear	Mon	17 th July	DK
Last date for R.O information to be produced	Fri	21 st July	Accountants
Working papers to Audit Commission	Fri	21 st July	HF
External audit starts	Mon	24 th July	External Audit
RO/CO forms to ODPM	Mon	31 st July	HF,SC
Period of Public Inspection starts (20 working days)	Fri	4 th Aug	
Meeting to discuss matters arising during audit	TBA	July/Aug	External Audit, HF, DK
External audit finishes	TBC		External Audit
Meeting to finalise any amendments arising as a result of External audit	TBA		External Audit, HF, DK
Letter of Representation to be sent to Auditors	Mon	4 th Sept	SR
Auditors Appointed day	Mon	4 th Sept	External Audit
Provisional date for SAS610 meeting with Audit committee or notify changes to the Audit Committee	Mon	20 th Sept	DK
Issue of Audit Opinion	Fri	29 th Sept	External Audit
Publication of Statements on Council's website	Fri	29 th Sep	HF

Statement of Accounts (glossy) published	Fri	20 th Oct	HF
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Abbreviations for Responsible Officers

AA – Amanda Attfield	HF- Heather Foster	SR – Sonia Rees
SB – Susie Binns	MG – Malcolm Green	AR – Andrew Rewell
SBch – Sam Birch	AH – Alison Hext	ASm – Alun Smith
CB – Colin Birks	CS – Cathy Stokes	JS – Josie Smith
LB – Lin Bradford	CJ – Christine Jones	PT – Pat Turvey
JBt – John Burnett	DK – David Keetch	AU – Andrea Upton
SC – Steve Cameron	StM – Steve Martin	
AC – Alison Cook	RM – Rob Morgan	
DE – Derek Edwards	JM – Joe Morris	
GE – Greg Evans	KM – Karen Morris	
TF – Tony Ford	KO’K – Kevin O’Keefe	

CIPFA GUIDANCE ON AUDIT COMMITTEES**Report By: Principal Audit Manager****Wards affected**

County-wide

Purpose

To advise Members on the CIPFA Guidance on Audit Committees.

Financial Implications

None

Reasons

1. The CPA Uses of Resources highlights the criteria for judgement in relation to the Statement of Internal Control as:
 - There is a specific member group (such as an audit sub committee or member panel), which has audit and governance issues as the principal responsibility in its terms of reference. (Level 3)
 - The member group provides effective leadership on audit and governance issues. It is proactive and has a forward looking programme of meetings and agenda items to ensure comprehensive coverage of all responsibilities in relation to the internal control environment. (Level 3)
 - There is an audit committee, which is constituted as a full committee of the Council and is independent of both the Executive and Scrutiny functions. (Level 4)
 - The Council has taken steps to ensure that the audit committee chair either has previous knowledge of, or has received appropriate training on financial and risk management, accounting concepts and standards, and the regulatory regime. (Level 4)
 - Audit committee members are provided with specific training relevant to their responsibilities. (Level 4)
 - 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 with in the council. (Level 4)

Background

2. The Audit Commission in their Annual Audit and Inspection Letter identified that the Council needed to develop the role of the Audit Committee in providing leadership on audit and governance issues, including documenting the overall assurance framework.

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

3. The CIPFA guidance builds on the previously published CIPFA Position Statement on Audit Committees.
4. It must be borne in mind that the concept of an Audit Committee within Herefordshire Council is in its infancy and that it will take time for it to be fully developed and meet the needs of the members. It is pleasing to note that the guidance requires only fine tuning to the Council's current good practices, however It's likely that the Council's preferred approach will not fit the guidance in every aspect.

Considerations

Key Areas

5. The CIPFA Guidance on Audit Committees gives guidance in four key areas: -
 - Purpose
 - Core Functions
 - Features
 - Structure and Administration
6. A synopsis of the Guidance is set out in Appendix 1.

Gap Analysis

7. The self-assessment checklist in the Guidance (Appendix 2) measuring the effectiveness of Audit Committee was completed. The key gaps identified were:
 - Alignment of the Audit Committees current terms of reference with the CIPFA guidance. (Appendix 3)
 - The need to develop how external audit and other inspection agencies' reports are presented to the Audit Committee
 - How to develop the Audit Committee's role in relation to internal control strategies such as the Risk Management Strategy
 - Cabinet members and Strategic Monitoring Committee members are on the Audit Committee, which is not in line with the guidance requirement that Audit Committee members are sufficiently independent of other key committees of the Council.
 - At the current time the Audit Committee does not access other committees
 - Separate and private meetings are not held with the external auditor and Internal Audit. It is felt that these meetings would not fit into the Councils culture and would erode transparency; and
 - Although induction training is given to new members no specific Audit Committee training has been given.

Strategies overseen by the Audit Committee

8. The following list gives an indication of the strategies recommended to be overseen by the Audit Committee: -
 - Risk Management;
 - The assurance framework, including the production of the Statement of Internal Control (SIC);
 - Codes of corporate governance, standards and behaviour;
 - Arrangements for delivering Value for Money;
 - Anti-fraud arrangements;
 - Arrangement for performance management;
 - Internal audit strategy/plan and
 - Anti-corruption arrangements including the Council's Whistleblowing guidance.

Specific Committee Audit Training

8. The Guidance highlights specific training that covers:
 - Financial reporting
 - Governance
 - Understanding financial statements
 - The regulatory framework
 - The role of Internal and External Audit
 - The importance of Risk Management
9. The Director of Resources and her managers are developing a rolling training programme for members in line with suggested good practice, that will be delivered to members, starting with risk management.

Audit Committee Work Programme

10. It is anticipated that the work programme for the Audit Committee will be member led however it might be helpful to give the Committee an indication of some of the activities it may wish to undertake. In addition the CIPFA guidelines suggests that it is general practice to have at least four meetings per year. It is therefore suggested that the Councils Audit Committee meets four times a year and develop the programme set out below.

Month	Activity
April 2006	<ul style="list-style-type: none"> • Approve Audit Services Annual Plan • Approve Audit Services Strategy. • Consider the External Auditors Work Programme for the 2005/6 accounts • Consider The Council's Anti-Fraud and Corruption Policy and recommend approval to Cabinet. • Consider and Review the Councils Statement of Internal Control Assurance process.
June 2006	<ul style="list-style-type: none"> • Consider and approve the Council's Annual Accounts for 2005/6 • Consider and approve the Council's Statement of Internal Control for 2005/6 • Consider the Principal Audit Manager's Annual Assurance Report and internal control opinion for 2005/6.
20th September 2006	<ul style="list-style-type: none"> • Provisional meeting to consider any SAS610 issues if any. (paragraph 8 refers)
November 2006	<ul style="list-style-type: none"> • Consider Interim Assurance Report to 30th September 2006
February 2007	<ul style="list-style-type: none"> • Receive and discuss the external auditors Annual Audit and Inspection Letter. • Consider Interim Assurance Report to 31st December 2006.

11. A provisional meeting of the Audit Committee has been arranged for 20th September 2006 in case the Audit Commission has to report any matters required under Statement of Auditing Standard 610 to be brought to the attention of those charged by the Council with the responsibility for Corporate Governance, which for Herefordshire Council is the Audit Committee. In previous years such a meeting has not been required, as the Council has agreed the appropriate amendments to the Councils Statement of Accounts.

Risk Management

12. Non-compliance with the Guidance could impact adversely on the Councils target of getting a Level 4 for Internal Control in its CPA Use of Resources Judgement Assessment.

RECOMMENDATIONS

- THAT (a) Subject to any comments and amendments by the Audit Committee, it is recommended to Council that the Terms of Reference in the CIPFA Guidance be adopted as outlined in Appendix 3;**
- (b) the Audit Committee considers the strategies it wishes to oversee (paragraph 4 refers);**
- (c) the Director of Resources agrees a timetable for training with the Chairman of the Audit Committee (paragraph 5 refers); and**
- (d) Subject to any comments and amendments by the Audit Committee, it is recommended that the above Work Programme be adopted (paragraph 7 refers).**

BACKGROUND PAPERS

- CIPFA guidance on Audit Committees

SYNOPSIS OF CIPFA GUIDANCE ON AUDIT COMMITTEES

The CIPFA Guidance on Audit Committees gives guidance in four key areas:

1. PURPOSE

It suggests that Councils 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. To oversee the financial reporting process.’
The Guidance also identifies the benefits of a fully developed Audit Committee as:

- Raising greater awareness of the need for internal control and the implementation of audit recommendations;
- increasing public confidence in the objectivity and fairness of financial and other reporting;
- reinforcing the importance and independence of internal and external audit and any other similar review process; and
- providing additional assurance through a process of independent and objective review.

It also highlights that the scope of the audit committee should be sufficient to provide challenge across all committees of the Council, as well as the Executive.

2. CORE FUNCTIONS

The Core functions were identified as:

- Considering the effectiveness of the authority’s risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements;
- Seeking assurances that action is being taken on risk related issues identified by auditors and inspectors. Being satisfied that the authority’s assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it;
- Approving (but not directing) Internal Audit’s strategy and plan and the monitor of performance;
- Reviewing summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary;
- Receiving the annual report of external audit and inspection agencies;
- Ensuring 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;

SYNOPSIS OF CIPFA GUIDANCE ON AUDIT COMMITTEES

- Reviewing the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit;

It was also felt that a fully developed Audit Committee would improve corporate focus on the issues arising from risk management, internal control and reporting. To aid the Audit Committee in carrying out its functions, it should have a clear role in relation to the Council's Internal Audit service. A key part of that role was the receiving and reviewing of the annual report from the Head of Internal Audit in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage. This is in line with current Council practice.

With regards to External Audit and Inspections, the guidance is of the opinion that the Audit Committee should contribute to the Council's response to the Audit Commission's annual audit and inspection letter, reports and opinion in addition to having access to inspection reports. It was also felt that the Audit Committee should have the opportunity to meet privately with the external auditor with out officers being present.

The guide suggests that the Audit Committee should take a view on whether certain council strategies have been properly formulated, and remain effective and receive regular reports on action taken to ensure the continued appropriateness of these strategies. The relevant strategies to be overseen should include:

- Risk Management;
- the assurance framework, including the production of the Statement of Internal Control (SIC);
- local codes of corporate governance, standards and behaviour;
- arrangements for delivering value for money;
- anti-fraud arrangements;
- anti fraud arrangements including the authority's whistle-blowing guidelines.

With regards to the Council's Financial Statement it was felt that that the Audit Committees review should focus on:

- The suitability of accounting policies and treatments;
- any changes in accounting policies and treatments;
- major judgemental area, e.g. provisions; and
- significant adjustments and material weaknesses in internal control reported by the external auditor.

3. FEATURES

The guidance is of the view that a good audit committee has:

- A strong Chair;
- unbiased attitudes;

SYNOPSIS OF CIPFA GUIDANCE ON AUDIT COMMITTEES

- the ability to challenge the executive when required; and
- a membership that is balanced, objective, independent of mind and knowledgeable.

In addition in line with best practice the Audit Committee should report directly to Council. This is in line with the Council's approach. The support and interest of the Chief Executive and the Leader of the Council is seen as essential again this is in line with the Councils approach.

4. STRUCTURE AND ADMINISTRATION**Structure**

The structure of the Audit Committee should not be part of the scrutiny, overview or standards Committees as there was the danger that either the Audit Committee functions could become diluted by the pressure of other business or that the proper functions of these committees might become less clear.

It was felt that having a group of members bearing the name 'audit committee' would add weight when considering audit related issues.

Independence

To be effective the audit committee needs to be independent of the executive and scrutiny. and have the ability to challenge the executive on issues and to report to it on major issues and contraventions. Cross membership should not be the norm, and if it is seen as necessary this should be restricted to one member from each.

The Audit Committee Chair should not be a member of the executive, as this promotes the objectivity of the committee. Although independent the Audit Committee should have a clear right of access to other committees of the Council.

Meetings

The frequency and timings of meeting was a matter for the Council to decide, but recommends at least four meetings a year. With one meeting covering the setting of the programme, agreeing audit plans and generally preparing for the year ahead, leaving three meeting available for monitoring purposes and to cover the cycle of assurance statements and financial reporting.

Composition

The size of the Audit Committee is relevant although not crucial. HM Treasury guidance recommends between three and five members for an Audit Committee

Some authorities adhere to the political balance rules as contained in s15 of the Local Government and Housing Act 198---, when bringing their Committee together.

Co-option may well be beneficial, with the injection of an external view for specific discussion.

SYNOPSIS OF CIPFA GUIDANCE ON AUDIT COMMITTEES**Skills and Experience**

It was felt that financial awareness was essential for the chairman, with a broad knowledge understanding of financial, risk control and corporate governance issues facing local government, generally and the Council specifically. In addition an ability to question, probe, and seek clarification about complex issues was deemed essential.

The guidance cited a survey, which identified areas that all Audit Committee members should be familiar with:

- Governance - understanding of the requirements of legislation and of local arrangements;
- risk Management - recognising the requirements of CPA in English Authorities;
- internal control assurance;
- the organisation's core activities;
- accounting issues; and
- regulation and compliance.

Training

It identified that appropriate and timely training for members would build on the key attributes of independence, a risk-focused attitude and a balanced approach already possessed by members.

And suggests induction training for all new committee members covering:

- The role of the committee;
- the terms of reference;
- the time input required of members;
- an overview of the Council's activities; and
- the financial and risk environment.

With further regular and specific audit committee training covering:

- Financial reporting;
- governance;
- understanding financial statements;
- the regulatory framework;
- the role of internal and external audit; and
- the importance of risk management.

**CIPFA GUIDANCE ON AUDIT COMMITTEES
GAP ANALYSIS**

Issues	Yes	No	N/A	Comment
Terms of Reference				
Have the committee's terms of reference been approved by full council?	√			This was approved by full Council on 29 th July 2005.
Do the terms of reference follow the CIPFA model?		√		A gap analysis has been carried out and gaps identified.
Internal Audit Process				
Does the committee approve the strategic audit approach and the annual programme?	√			Cabinet previously carried out the role of the Audit Committee and approved The Audit Strategy and Audit Plan. With the Audit Committee now in place they will approve these documents for 2006/7.
Is the work of internal audit reviewed regularly?	√			Key Themes, issues of concern, progress on the plan was reported to predecessor committees as part of the interim and annual assurance reports.
Are summaries of quality questionnaires from managers reviewed?	√			Customer Survey results form part of the Audit Services Annual Assurance Report.
Is the annual report, from the head of audit, presented to the committee?	√			The annual report for 2005/6 was presented to the Audit Committee on 30 th September 2005.
External Audit Process				
Are reports on the work of external audit and other inspection agencies presented to the committee?		√		The process needs to be developed. Could include JAR and the CPA Improvement Plan

**CIPFA GUIDANCE ON AUDIT COMMITTEES
GAP ANALYSIS**

Issues	Yes	No	N/A	Comment
Does the committee input into the external audit programme?	√			The external Audit Programme for 2006/7 will be presented to a future Audit Committee.
Does the committee ensure that officers are acting on and monitoring action taken to implement recommendations?	√			The action taken by management on recommendations made and the outcome of audit recommendation follow up work is reported to members in the assurance report.
Does the committee take a role in overseeing: <ul style="list-style-type: none"> • Risk management strategies • Internal control statements • Anti-fraud arrangements • Whistle-blowing strategies? 	√	√ √ √		The process needs to be developed Will now form part of the Statement of Internal Control assurance procedures. The process needs to be developed The process needs to be developed
Membership				
Has the membership of the committee been formally agreed and a quorum set?	√			This is in line with council practice.
Is the chair free of executive or scrutiny functions		√		The Chairman of the Audit Committee is also the Chairman of the Community Services Scrutiny Committee.
Are members sufficiently independent of the other key committees of the Council?		√		Members of Cabinet and the Strategic Monitoring Committee are members of the Audit Committee.
Have all members' skills and experiences been assessed and training given for identified gaps?	√			The training gap has been identified as set out in the main report, the training is being developed by the Director of Resources.

**CIPFA GUIDANCE ON AUDIT COMMITTEES
GAP ANALYSIS**

Issues	Yes	No	N/A	Comment
Can the committee access other committees as necessary?		√		The Guide states that the Audit Committee should have clear reporting lines and right of access to other committees/functions, for example scrutiny and services committees, corporate risk management boards and other strategic groups. And needs to retain the ability to challenge the executive on issues and report to it on major issues and contraventions'.
Meetings				
Does the committee meet regularly?	√			Once fully functional it is intended that the committee meet quarterly. A work programme for the Committee has been developed.
Are separate, private meetings held with the external auditor and the internal auditor?			√	This is not required as it erodes transparency.
Are meetings free and open without political influences being displayed?	√			
Are decisions reached promptly?	√			
Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	√			
Training				
Is in induction training provided to members?	√			
Is more advanced training available as required?	√			

CIPFA GUIDANCE ON AUDIT COMMITTEES
GAP ANALYSIS

Issues	Yes	No	N/A	Comment
Administration				
Does the authority s151 officer or deputy attend all meetings?	√			
Are the key officers available to support the committee?	√			

AUDIT COMMITTEE TERMS OF REFERENCE GAP ANALYSIS

CIPFA SUGGESTED TERMS OF REFERENCE	CURRENT TERMS OF REFERENCE
Audit Activity	
To consider the Head of Internal Audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.	Consider the Head of Internal Audit's annual report. Requires rewording
To consider summaries of specific internal audit reports as requested.	To be added
To consider reports dealing with the management and performance of the providers of internal audit services.	Consider the periodic plans of internal audit progress against and material changes made to these plans and any implications arising from their findings and opinion. Requires rewording
To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.	Consider the adequacy of management to internal audit advice and recommendations. Requires rewording
To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.	To be added
To consider specific reports as agreed with the external auditor.	Consider periodic reports by external auditors. Requires rewording
To comment on the scope and depth of external audit work and to ensure it gives value for money.	To be added
To liaise with the Audit Commission over the appointment of the Council's external auditor.	To be added
To commission work from internal and external audit.	To be added
	Consider the terms of reference for Internal Audit.

AUDIT COMMITTEE TERMS OF REFERENCE GAP ANALYSIS

CIPFA SUGGESTED TERMS OF REFERENCE	CURRENT TERMS OF REFERENCE
	Consider the Internal Audit strategy.
	Consider the resourcing of Internal Audit.
Regulatory Framework	
To maintain an overview of the Council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.	To be added
To review any issue referred to it by the Chief Executive or a Director, or any Council body.	To be added
To monitor the effective development and operation of risk management and corporate governance in the Council.	To be added
To monitor Council policies on 'Raising Concerns at Work' and the anti-fraud and anti-corruption strategy and the Council's complaints process.	To be added
To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.	Approval of the Council's Statement of Accounts and associated reports. Requires rewording
To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.	To be added
To consider the Council's compliance with its own and other published standards and controls.	To be added

AUDIT COMMITTEE TERMS OF REFERENCE GAP ANALYSIS

Accounts	
<p>To review the annual Statement of Accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.</p>	<p>Approval of the Council's Statement of Accounts and associated reports.</p>
<p>To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.</p>	<p>To be added</p>

**AUDIT SERVICES INTERIM ASSURANCE REPORT
2005/6****REPORT BY: PRINCIPAL AUDIT MANAGER****Wards affected**

County-wide

Purpose

To update Members on the progress made in relation to the Audit Plan and to bring to their attention any key internal control issues. In addition the report updates Members on the actions or the current position on key issues raised for 2004/5 that required attention.

Financial Implications

None

Reasons

Compliance with good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

Background

The Audit Commission in their Annual Audit and Inspection Letter identified that the Council needed to develop the role of the Audit Committee in providing leadership on audit and governance issues, including documenting the overall assurance framework.

Consideration of the Interim Assurance Report aids the development of the Audit Committee's role.

Considerations**Key Issues Identified in 2005/6**

1. The Audit Committee considered the Annual Assurance Report for the year ending 31st March 2005 on 30th September 2005. Two key issues were identified as being relevant to the Council's Statement of Internal Control. The first related to the overspend in Social Care and the second to the need for improvements in the Council's overall disaster recovery arrangements.
2. In relation to the overspend in Adult and Children Social Care, It has been identified and reported to Cabinet that there is a significant risk that the overspend for 2005/6 will reach approximately £1,500,000. The Assistant County Treasurer (Policy and Audit) has been seconded to assist the Director of Audit and Community Services in the day-to-day financial management of the Adult Social Care budget.

3. With regards to the Children Social Care Service the projected overspends has been reduced to approximately £195,000. An action plan has been developed to increase family support and recruit and retain skilled foster carers. The Audit Services view is that positive action is being taken to solve the issue previously identified.
4. The Audit review of the Council's Disaster recovery arrangements is planned for quarter 4. The Audit Committee will be updated in the Annual Assurance Report.

Progress On The Plan

5. Two key elements have effect the overall completion of the Audit Plan for 2005/6. Firstly the level of time spent verifying performance indicators and the flowcharting and procedure documentation of all the fundamental systems. To help align the Audit Plan to available resources in consultation with the Directors priorities were identified and the following work has been deferred to 2006/7:
 - Social Care Contract letting;
 - Supply Cover Administration;
 - Older People Payment to independent Providers;
 - Physical Disabilities-Direct Payments to Service Users;
 - Private Finance Initiative;
 - CHRIS;
 - Government Grants;
 - Waste Management Contract;
 - Info in Hereford- Garrick House;
 - Agency Payments;
 - P&C Grants and Donations; and
 - Early Years Development- Site visits
6. The deferral of the above work will not impact adversely on the level of work required to give an end of year opinion on the Council's system of internal control.
7. The work on the completion of fundamental systems is progressing well and it is anticipated that all should be completed in time for the Audit Commission to review.
8. The ICT Computer Audit work programme had to be reviewed due to the ICT Computer Auditor requesting to stick to the minimum days in his contract. Action is being taken to bring additional resources in to cover the gap. Arrangements are also being made to bring a higher level of ICT work in house which will also prove to be cheaper in the future.

Recommendations

9. As previously reported an improvement to recommendation reporting was introduced for 2005/6 and entailed the introduction of a new category of audit recommendation called 'Critical1'. These are recommendations where non-compliance will be a high risk to the Council and where action is required urgently or with in an agreed timescale.
10. Only two 'Critical 1' recommendations were made to date. The first related to the need for improved controls in relation to the use of the school mini bus at a secondary school. It is pleasing to report that the school has taken action and most of the required actions have been completed. The second related to the need to ensure that the details of legislation and acts listed on the various types of Council warrant cards were correct, complete and current, good progress is being made and it is anticipated that this recommendation will be fully actioned by the end of March.
11. Recommendation follow up work has shown that 60% were fully completed with 20% partly completed and 20% not completed at the time of the audit visit, however it should be borne in mind that this should improve by the end of the financial year.

Audit Opinions

12. It is normal practice for all audits except for recommendation follow-ups to be given an audit opinion as detailed in **Appendix 1**. All audits rated as unsatisfactory or worse and any fundamental or major systems found to be marginal or worse must be brought to the attention of the Audit Committee. Only two audits met the criteria these are outlined below.

Audit	Opinion	Action being taken
Social Care Financial Management and Budgetary Control	Marginal	Audit Services has produced an action plan for the Director to consider.
Anti-Money Laundering Procedures	Unsatisfactory	Procedures are in place and a training programme has been developed and will be presented to relevant staff. Target date for completion 31st March 2006.

13. It should be noted that the above represents the exception with a number of audits getting satisfactory audit opinions such as Performance Management and Network Planning in ICT.

Audit Benchmark Survey

14. The Audit Service took part in the CIPFA Benchmarking Club Audit Customer Satisfaction Survey with the overall audit performance being good. The survey covered:

- Audit Services Work;
- Audit Staff;
- Conduct of Audits;
- Audit reporting; and
- Customer Service.

15. Three areas were identified for improvement. The first was Value for Money Reviews, which was of high importance to customers with audit performance being adequate. The second related to timing of audits again given high importance by customers with audit performance being adequate. And the third related to recommendations being constructive, practical and cost effective this was given high importance by customers with audit performance being adequate. These areas of customer concerns have been addressed with the signing of audit protocols with each directorate.

Areas of Concern

16. At the present time there are no areas of concern to report.

Risk Management

17. If the reviews of the Councils key fundamental systems are not completed on time it will impact adversely on the work of the Audit Commission and the closure of the Council's financial accounts.

RECOMMENDATION

THAT The Audit Committee considers the Interim Assurance Report.

BACKGROUND PAPERS

- None Identified

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 a number of 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 due 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 6 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.

**STATEMENT OF INTERNAL CONTROL
ASSURANCE FRAMEWORK PROTOCOLS**

REPORT BY: PRINCIPAL AUDIT MANAGER

Wards affected**County-wide****Purpose**

To advise Members on the format of the Statement of Internal Control Assurance Framework protocols.

Financial Implications

None

Reasons

1. The CPA Uses of Resources highlights the Criteria for judgement in relation to the Statement of Internal Control.
 - An appropriate member group has responsibility for review and approval of the Statement of Internal Control (SIC) and considers it separately from the accounts. (Level 2)
 - The Council has conducted an annual review of the effectiveness of the system of internal control and reported on this in the Statement of Internal Control. (Level 2)
 - The sources of assurance to support the Statement of Internal Control have been identified and are reviewed by senior officers and members. (Level 2)
 - There are action plans in place to address any significant internal control issues reported in the Statement of Internal Control. (Level 2)
 - The Council has put in place an assurance framework that maps the council's strategic objectives to risks, controls and assurances. (Level 3)
 - The assurance framework provides members with information to support the Statement of Internal Control. (Level 3)
 - The assurance framework is fully embedded in the Council's business process. (Level 4)
 - The Council can demonstrate corporate involvement in/ownership of the process for preparing the Statement of Internal Control. (Level 4)

Background

2. Regulation 4 of the Accounts and Audit Regulations (2003) requires the Council to conduct a review, at least once a year, of the effectiveness of its system of internal control and publish a Statement of Internal Control each year with the Council's financial statement.
3. The 2004/2005 Audit Commission Annual Audit and Inspection Letter highlighted the need for the Council to develop the assurance framework, in particular mapping strategic objectives to risks, controls and assurances.
4. The CIPFA Finance Advisory Network has published guidance in relation to the Statement of Internal Control.

Considerations

5. The guidance requires the most senior officer and the most senior member to sign the Statement of Internal Control. They should be satisfied that the SIC is supported by reliable evidence and accurately reflects the financial and non-financial internal control environment. At Herefordshire Council it is normal practice for the Leader of the Council and The Chief Executive to sign the Council's Statement of Internal Control, however it is recognised that improvements are required in relation to the assurance process, that formally brings together the Council's process for dealing with the Statement.
6. Although the guide suggests the sources of evidence to support the SIC, it also emphasises reliance on existing processes and documents and recognises that not all of the suggested sources will be present (or useful) in any given organisation.
7. The assurance gathering process is quite detailed and gives guidance on how the SIC can be supported and evidenced. It also recognises that the Council will set out its own level of evidence gathering. The Council's approach will be to research and formally recognise things currently done across the Authority and record them. This co-ordination of existing evidence will strengthen consistency of approach across the Authority and help to promote awareness of good practice.
8. At the heart of CIPFA's guidance is the flowchart set out in Appendix 1, which helps to relate the SIC back to the Council's statutory obligations and organisational objectives. Examination shows that the Council's current approach is in line with that stated.
9. The guidance emphasises that the SIC is a corporate document involving (in addition to the most senior officer and the most senior member as signatories), a variety of people charged with delivering governance:
 - Directors and managers assigned with the ownership of risks and the delivery of services;
 - The responsible financial officer who is responsible for the accounting control systems and records and the preparation of the statement of accounts;
 - The monitoring officer in meeting his/her statutory responsibilities;

- Members (e.g. through the audit committee): and
 - Others responsible for providing assurance
10. It is important therefore that the SIC, as a corporate document, should be owned by all senior officers and members of the Council. A shared approach should be taken to compiling the SIC, as the guidance stresses that delegation to a single individual or section will dilute the statement's significance and encourage other people to distance themselves from their proper responsibilities. However the guidance requires the involvement and approval of both the responsible finance officer and the monitoring Officer to enable them to meet their separate statutory responsibilities.
 11. Although the guidance recommends that the statement should be continually reviewed throughout the year, it also recognises that authorities with well-developed arrangements will find that it will emerge from the routine governance and managerial processes. The prime examples are the Council's performance management and risk management systems, that continues to be embedded across the Council
 12. The guidance also gives an example of a framework, which identifies some typical dynamics of a SIC that the Council should consider, and shows how they can be brought together and evidenced. The Council's framework is attached in Appendix 2 and shows that the components of a robust SIC document are already in place as it simply brings together the Council's existing initiatives and areas of good practice together in a more co-ordinated and formalised manner.
 13. The guidance suggests that at the centre of the framework will be a management group or equivalent who are given ultimate responsibility for drafting the SIC, evaluating assurances and the supporting evidence. This group should ensure consistency with existing policies and the authority's internal control framework.
 14. It also emphasises that compiling a SIC should not be done in a vacuum. Comments, evidence and feedback can come from many places, including reports from inspectorates, internal and external audit on specific service areas, or corporate reviews on performance and risk management authority wide and recognises that each can provide additional assurances on the adequacy and effectiveness of existing service performance that can be viewed in the light of the SIC. Again this is in line with the Council's existing approach.
 15. The guidance also shows a need for a review body in the process, such as an audit committee, who should be charged with critically reviewing the SIC and its supporting documentation. It seems that it is vital that this review body remains independent from the SIC compilation and is given real powers to make recommendations and ultimately changes to the process as it sees fit.
 16. In line with good practice the Council has adopted an Audit Committee with the remit to approve the Council's Statement of Accounts and associated reports.
 17. CIPFA recommends that the SIC should be reviewed at least once a year and should not be seen simply as a task at a particular point in time or as an add-on end of year activity to comply with legislation.
 18. It also emphasises that once an authority has agreed the process involved in compiling a SIC, it needs to consider an appropriate timeline that allows input into the document in a timely fashion.

19. Appendix 3 and 4 sets out how the SIC could be compiled over the year and is linked with the framework outlined in Appendix 2.
20. CIPFA has also published an assurance checklist, which covers each objective outlined in Appendix 1. The Council has developed it's own checklist, which will be used to help give the assurances required in relation to the SIC.

Risk Management

21. If the Council has a robust assurance framework that maps strategic objectives to risks, controls and assurances, it will help to improve the Council's CPA Use of Resources Judgement Assessment score in relation to internal control.

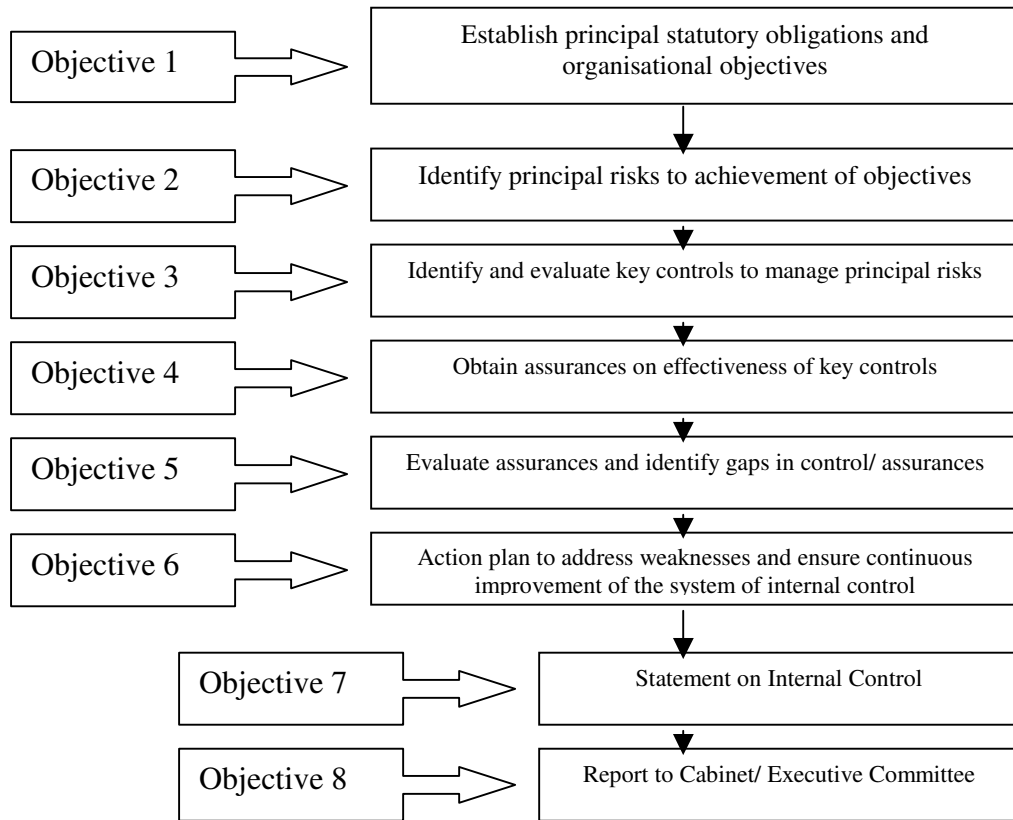
RECOMMENDATION

- THAT**
- (a) The Corporate Management Board is made responsible for the Statement of Internal Control, with the Director of Resources being the Lead Officer;**
 - (b) subject to any comments from the Audit Committee the frameworks in Appendix 2 and 3 be adopted; and**
 - (c) both frameworks to be reviewed annually by the Audit Committee.**

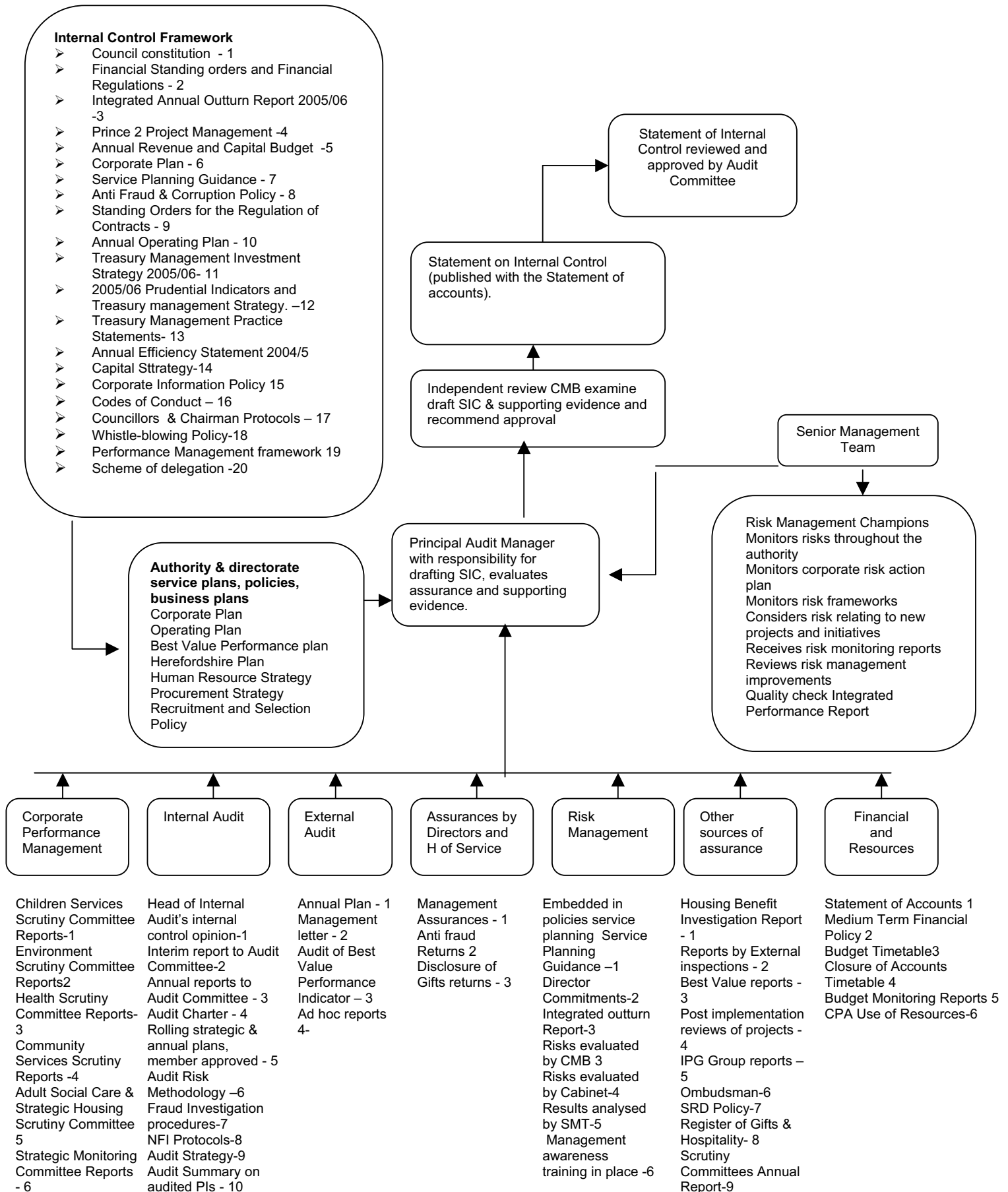
BACKGROUND PAPERS

- CIPFA guidance on the Statement of Internal Control.

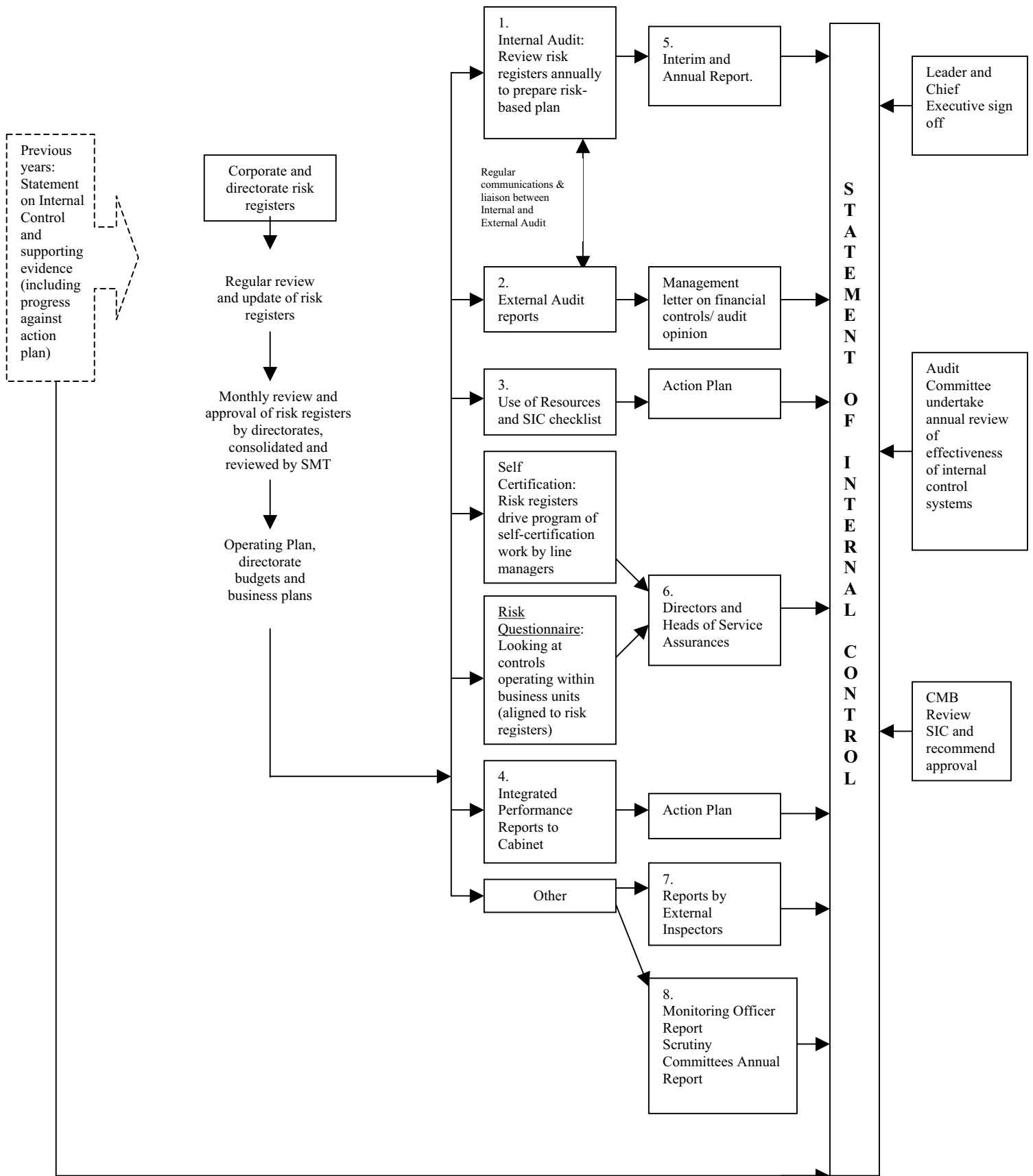
FLOWCHART RELATING THE STATEMENT OF INTERNAL CONTROL BACK TO THE COUNCIL'S STATUTORY OBLIGATIONS AND ORGANISATIONAL OBJECTIVES



Herefordshire Council Framework – Statement of Internal Control



**STATEMENT OF INTERNAL CONTROL
REPORTING SEQUENCE**



STATEMENT OF INTERNAL CONTROL REPORTING SEQUENCE TIMETABLE

Document Number		
1	Internal Audit review of Risk Registers	Annually
2	External Audit Reports	As produced by the Audit Commission.
3	Use of Resources and SIC checklist	Annually
4	Integrated Performance Reports to Cabinet	Months 4,6,8,10.and 12
5	Interim Assurance Report / Annual Assurance Report	Annually
6	Directors and Heads of Service Assurances	Quarterly
7	Reports by External Inspectors	As produced by Inspectorates
8	Monitoring Officer Reports	Biannually
9	Scrutiny Committees Annual Report	Annually

