

# A G E N D A

## Audit Committee

Date: **Friday, 7th April, 2006**

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Time: **10.00 a.m.**

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Place: **The Council Chamber,  
Brockington, 35 Hafod Road,  
Hereford**

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Notes: *For any further information please contact:*

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**County of Herefordshire  
District Council**



HEREFORDSHIRE  
COUNCIL



# AGENDA

## for the Meeting of the Audit Committee

To: Councillor A.C.R. Chappell (Chairman)

Councillors Mrs. P.A. Andrews, Mrs. J.P. French, T.M. James, R.I. Matthews,  
R.J. Phillips, Mrs. S.J. Robertson.

	<b>Pages</b>
<b>1. APOLOGIES FOR ABSENCE</b> To receive apologies for absence.	
<b>2. NAMED SUBSTITUTES (IF ANY)</b> To receive any details of Members nominated to attend the meeting in place of a Member of the Committee.	
<b>3. DECLARATIONS OF INTEREST</b> To receive any declarations of interest by Members in respect of items on the Agenda.	
<b>4. MINUTES</b> To approve and sign the minutes of the meeting held on 20th February 2006.	1 - 6
<b>5. USE OF RESOURCES IMPROVEMENT PLAN</b> To report on the Use of Resources Improvement Plan.	7 - 18
<b>6. AUDIT COMMISSION REPORTS</b> To inform Members on the arrangements to manage the process of receipt and action follow up on all Audit Commission reports received by the Council.	19 - 20
<b>7. AUDIT COMMITTEE MEMBERSHIP</b> To inform Members on the membership of the Council's Audit Committee.	21 - 24
<b>8. AUDIT PLAN 2006-07</b> To report on the process used to develop the Annual Plan for 2006/07.	25 - 40
<b>9. PROGRESS ON THE COUNCIL'S STATEMENT OF INTERNAL CONTROL</b> To update Members on the progress being made on the completion of the Council's Statement of Internal Control.	41 - 42
<b>10. ANTI MONEY LAUNDERING</b> To receive an oral presentation from the Audit Manager on Anti Money Laundering.	
<b>11. DATE OF NEXT MEETING</b>	

To agree the date, time and venue for the next meeting as Friday, 30th June, 2006 at 10.00 am at the Council Chamber, Brockington, 35 Hafod Road, Hereford.

COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

**MINUTES of the meeting of Audit Committee held at Council Chamber, Brockington on Monday, 20th February, 2006 at 10.00 a.m.**

**Present:** Councillor A.C.R. Chappell (Chairman)

**Councillors:** Mrs. P.A. Andrews, T.M. James, R.I. Matthews, R.J. Phillips and Mrs. S.J. Robertson

**In attendance:** Councillors Mr T Tobin (ex-officio) and R.M. Wilson (ex-officio)

**13. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Mrs J.P. French.

**14. NAMED SUBSTITUTES (IF ANY)**

There were no named substitutes.

**15. DECLARATIONS OF INTEREST**

There were no declarations of interest made.

**16. MINUTES**

**RESOLVED:** That the minutes of the meeting held on 30th September, 2005 be approved as a correct record and signed by the Chairman.

**17. COMPLETION OF THE ACCOUNTS 2006/06**

The Assistant County Treasurer (Accountancy and Exchequer Services) advised the Committee that the date for the closing of the Statement of Accounts is 30th June 2006 and that the timetable, attached to the report, is well on course to meet the deadline. He stated that although the deadline date had moved forward, the authority remained committed to closing the accounts as soon as possible after the year end. Members noted the planned changes and improvements to the 2005/06 Statement of Accounts. It was emphasised that although there was a wish for simplicity of the accounts, there were restrictions within the formal requirements preventing this, however, explanatory notes would be inserted as much as possible to ease understanding. It was also pointed out that a summary document would be produced, which would be less technical and more public friendly.

**RESOLVED:** That the report be noted.

**18. CIPFA GUIDANCE ON AUDIT COMMITTEES**

The Principal Audit Manager presented the report and reminded Members that at the first meeting of the Committee in September 2005 information was given on the position statement guidance now published and highlighted in the report. Some of the points raised highlighted the need for the Committee:

- to be a fully constituted committee of the Council, which is independent of both the Executive and Scrutiny functions;
- for Members to receive specific training relevant to their responsibilities;
- to have terms of reference that are reviewed annually, taking into account relevant governance developments, which are then integrated within the Council;
- Chairman to have previous knowledge of or to receive appropriate training on financial and risk management, accounting concepts and standards and the regulatory function; and
- to provide effective leadership on audit and governance, with the Committee proactive in providing forward looking agenda items;

Additionally, Members were advised that there was a need to raise the profile of the Audit Committee within the Council. It was agreed that it would take time to embed across the Council all the issues outlined in the Statement of Internal Control, but good progress had been made to date. Currently the Audit Committee is made up of Cabinet and Scrutiny Committee Members, CIPFA guidance requires that Members are sufficiently independent of other key committees of the Council. Therefore the terms of reference and membership of the Committee would need to be re-examined. It was proposed that the Principal Audit Manager contacted other local authorities to investigate what other authorities are proposing for the make up of the Committee and that this information is circulated to Members. It was also suggested by the Director that Members would need to discuss the longer term future of the Committee and the possible change of name to the Corporate Governance Committee to cover the other non-financial issues that would need to be dealt with. It was discussed that it might be more appropriate for backbench Members to make up the membership of the Committee and to consider an independent Chairman. It was emphasised that it was important that the Committee was not made up of Members with only financial experience, but to have Members with a general business background also.

CIPFA guidance also suggests separate and private meetings with the Chairman and both internal and external auditors. It was felt however that this would not sit well with the Council's culture and erode transparency and it was felt therefore that all matters should come before the Committee. There is also a need for the Committee to decide on the issues to be overseen by them, which are listed below:

- Risk Management;
- The Assurance Framework, to include the production of the Statement of Internal Control;
- Codes of Corporate Governance, standards and behaviour;
- Arrangements for delivering value for money;
- Anti-fraud arrangements;
- Arrangements for performance management;
- Internal audit strategy/plan; and
- Anti-corruption arrangements including the Council's whistleblowing guidance.

Members discussed the issue of training and the Director for Resources advised that a training programme was being put together for Committee Members to cover any gaps there may be from the initial induction training Councillors' received. However, a rolling training programme, in line with suggested good practice, was being developed and would commence with risk management. With regards to the work programme for the Committee, it was anticipated that

this would be Member led. Additionally, it was reported that CIPFA guidelines suggest that in line with good practice the Committee meets four times a year. It was proposed therefore that the Committee meet four times a year and develop the work programme as set out in the report.

**RESOLVED**

- THAT**
- (a) the Terms of Reference as outlined in the CIPFA guidance in Appendix 3 to the report be adopted;**
  - (b) the membership of the Committee be reviewed;**
  - (b) the strategies to be overseen by the Committee as outlined above, be adopted;**
  - (c) the timetable for training outlined in the report be adopted;**
  - (d) the work programme outlined in the report be adopted; and**
  - (e) a further report be made to the April meeting.**

**19. AUDIT SERVICES INTERIM ASSURANCE REPORT 2005/06**

The Principal Audit Manager advised the Committee of the progress that had been made to date on the Audit Plan and highlighted key internal control issues. In addition he advised of the current position on the key issues raised in 2004/05.

He stated that two key areas identified in the Annual Assurance Report for 2005 were the need for improvements in the Council's overall disaster recovery arrangements and the overspends within Social Care. He stated that the current action plan to address the overspends in Social Care had resulted in:

- the secondment of the Assistant County Treasurer (Policy and Audit) to the Adult and Community Services Directorate to assist with the day-to-day financial management of the budget;
- the projected overspends within the Directorate for Children and Young People reduced to approximately £195,000; and
- the development of an action plan to increase family support and the recruitment and retention of skilled foster carers.

It was felt that positive action was being taken to resolve the issues relating to the overspends. It was noted that the audit review of the disaster recovery arrangements is planned for quarter four and it is proposed that the Committee is updated on this in the Annual Assurance Report. It was agreed that the work listed below be deferred to 2006/07 to align the Audit Plan with available resources.

- 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 and C grants and donations; and
- Early years development – site visits.

It was noted that audits on the fundamental systems of the Council would be carried out, as it would adversely affect the closure of the Council's financial accounts if they were not.

The Principal Audit Manager reported that there were only two 'critical one' recommendations, which related to improved school controls over the use of the school mini bus and the details of legislation and acts listed on the Council's various types of warrant cards were correct, complete and current. He stated that he had taken a personal interest in these issues and that good progress had been made.

It was reported to Members that any audit that was rated as unsatisfactory, worse and any fundamental or major system found to be marginal or worse, would be brought to the attention of the Committee. Two audits met this criteria, which were Social Care financial management and budgetary control and anti-money laundering procedures. Members were informed that for the Social Care issues an action plan for the Director had been prepared for consideration. With regard to the anti-money laundering procedures, guidance had been provided by CIPFA and through the Council's legal department. It was felt that good information and training had been put in place and the key areas were the Info Shops and Cash Office. Training was due for completion by the end of March 2006.

The Principal Audit Manager drew Members' attention to the audit benchmark survey, part of the CIPFA benchmarking club Audit Customer Satisfaction Survey, which gave an overall audit performance of good. Three areas for improvement were, value for money reviews, the timing of audits and recommendations being constructive, practical and cost effective. All areas were seen as of high importance by customers and have been addressed with the signing of audit protocols with each directorate.

**RESOLVED That the Interim Assurance Report be approved.**

## **20. STATEMENT OF INTERNAL CONTROL ASSURANCE FRAMEWORK PROTOCOLS**

The Principal Audit Manager presented the report on the Statement of Internal Control Assurance Framework Protocols and advised Members that it had been drawn up as per CIPFA guidance. Members discussed the list of protocols and the various levels that they were set at. Members were advised that the assurance framework would take time to be fully embedded in the Council's business processes and that the Council must demonstrate corporate involvement in and ownership of the process for preparing the Statement of Internal Control. It was pointed out that the 2004/05 Audit Commission Annual Audit and Inspection Letter highlighted the need for the Council to develop the assurance framework, particularly in mapping strategic objectives to risks, controls and assurances. It was noted the importance of the involvement of the Section 151 Officer and the Monitoring Officer to ensure the process is carried out through the year. The Principal Audit Manager also advised the Committee that the Council had developed a checklist to help give the assurances in relation to the Statement of Internal Control.

The Principal Audit Manager referred to the diagram at Appendix 2 of the report, the Statement of Internal Control, which demonstrated how all the processes such as service plans; performance management; risk management; Corporate Management Board/senior management team; fed in to the Statement of Internal Control and was



a corporate document and not just a financial one. He added that one issue that had been highlighted by the Audit Commission was there was no link between the corporate risks and the Statement of Internal Control. He stated that the diagram at Appendix 3 of the report highlighted how everything fed into the Statement of Internal Control and how it was reported on to the Audit Committee. He added that once the Statement of Internal Control had been agreed and signed off by the Chief Executive and the Leader of the Council, it would be presented to the Audit Committee.

**RESOLVED**

- THAT**
- (a) the Corporate Management Board is responsible for the Statement of Internal Control, with the Director of Resources as lead officer;**
  - (b) the frameworks outlined at Appendices 2 and 3 be adopted; and**
  - (c) both frameworks are reviewed annually by the Committee.**

**21. DATE OF NEXT MEETING**

**RESOLVED: That the date, time and venue of the next meeting is Friday, 7th April, 2006 at 10.00 am at the Council Chamber, Brockington, Hereford.**

The meeting ended at 11.00 a.m.

**CHAIRMAN**



## USE OF RESOURCES IMPROVEMENT PLAN

Report By: Director Of Resources

### Wards Affected

County-wide

### Purpose

To report on the Use of Resources Improvement Plan.

### Considerations

1. The annual Use of Resources Assessment by the Audit Commission is a full part of the Council's Comprehensive Performance Assessment.
2. The 2005 Use of Resources Assessment gave the Council a score of 3 out of 4 (Note 1 – lowest, 4 – highest), which means the Council is performing well in its use of resources but there is room for improvement.
3. In order to improve on this good performance, a draft improvement plan has been prepared (See Appendix 1 attached). The improvement plan, which includes lead officers and target dates, aims to secure the highest mark of 4 in future assessments.
4. Discussions will take place with the Audit Commission to ensure the improvement plan meets with their approval. The improvement plan is largely, but not entirely, based on the feedback we received from the Audit Commission in respect of the 2005 assessment.
5. Once the improvement plan has been discussed with the Audit Commission, arrangements will be made to get the Corporate Management Board and Senior Management Team signed up to the plan as appropriate.
6. Progress has already been made to date on various elements of the Improvement Plan. A further report on progress will be made to the June meeting of this committee.

### Recommendation

**THAT the Audit Committee note the report and the improvement plan.**

### BACKGROUND PAPERS

None identified



## USE OF RESOURCES ACTION PLAN 2006/7

## 1. Finance Reporting

2005 Score 3 out of 4

	Improvements required	Lead Officer	Target Date	Actions
(a)	We need to agree with the external auditors what we need to do to meet the 'exemplary working papers' criteria.	David Keetch	April 06	David Keetch has talked to the new relationship manager. Initial discussions suggest that if we can deal with (b) to (d) below especially (d) the issue about working papers might not stop us getting a score of 4.
(b)	Process of consultation with a range of stakeholders to establish their requirements in respect of the publication of summary accounts.	David Keetch	June 06	<p>Potential consultation options</p> <ul style="list-style-type: none"> <li>(i) Letters to key stakeholders</li> <li>(ii) Item in Herefordshire Matters</li> <li>(iii) Council Website</li> </ul> <p>This issue has been discussed with Public Relations and they have given us a contact name to discuss options with. Consultation will take place once a draft for 2005/6 is available.</p>
(c)	Publication of Summary of Accounts that are intelligible and accessible to members of the public.	David Keetch	August 06	Heather to talk to John Burnett's team about graphics etc prior to preparing a draft for publication 2005/06.
(d)	Provide more challenge /analytical review to help prevent "non-trifling " errors in the accounts.	David Keetch	May 06	Reiterate strongly to the Service Accountants of the absolute requirement to do challenging analytical reviews particularly in relation to debtors/ creditors and bank reconciliation entries.

## 2. Financial Management

2005 Score 3 out of 4

	Improvements required	Lead Officer	Target Date	Actions
(a)	Approving a comprehensive medium term financial plan or strategy document.	Director of Resources	First draft April 06  Approved June 06	Director of Resources to take appropriate Medium Term Financial Plan to Cabinet for approval.
(b)	Develop clear linkages between the medium term financial strategy and other internal strategies e.g. accommodation, pay and workforce, Corporate ICT, Performance Management.	Director of Resources	First draft April 06  Approved June 06	Medium Term Financial Plan to demonstrate appropriate links with these strategies.
(c)	Prepare and gain approval by C.M.B of a formal scheme of budget delegation below Director Level.	David Keetch	August 06	David Keetch to discuss with the Director of Resources the "delegation arrangements" prior to preparing a document for approval by Corporate Management Board. Principles paper agreed with Corporate Management Board March 2006. Scheme of Delegation needs to reflect agreed changes.
(d)	Strengthen arrangements for involving budget holders in the budget setting process.	David Keetch	August 06	Issue of formal scheme of delegation and circulation to budget holders.
(e)	Develop and demonstrate clear links between the Councils various planning levels including service plans and the budget setting process.	David Keetch	August 06	The scheme of delegation will make clear the involvement of budget holders in budget setting and the necessary links with service plans etc.
(f)	Evidence that both the Medium Term Financial Plan and the annual budgets are subject to	Director of Resources	August 06  First draft April 06	See Director of Resources work on Medium Term Financial Plan.

	<b>Improvements required</b>	<b>Lead Officer</b>	<b>Target Date</b>	<b>Actions</b>
	annual budgets are subject to risk assessment and sensitivity analysis.		06 Approved June 06	
(g)	Ensure that relevant non-financial and financial information is reported to and used by Budget Holders.	David Keetch	August 06	Initiate discussion at Corporate Finance Group. Improved information to be included in the 2006/07 month 4 Integrated Performance Report. An improved draft report to be circulated for comments.
(h)	Progress in achieving planned savings and efficiency gains is regularly reported to senior management with developed action plans.	Andrew Tanner	August 06	More constant vigilance by Director and Heads of Service.  Explicit links e.g. including efficiency savings progress in the Integrated Performance Report
(i)	Implementing a comprehensive training programme.	Andrew Tanner	August 06	Andrew Tanner is co-ordinating a structured training plan.
(j)	Approval of and action a qualified plan for the reduction of back log property.	Colin Birks	August 06	Colin Birks has produced a note on the backlogs. This needs to be converted into a formal action plan in respect of Corporate maintenance. A copy of the CPA feedback information has been passed to Colin Birks.
(k)	Identification of the extent to which whole life costing and option appraisal are applied.	Colin Birks	August 06	Colin Birks is also going to look into this from a Property point of view. Option appraisal and whole life costing are included as fundamental elements in the bidding process for Prudential borrowing funding. Bidders are required to consider different options and put forward the best option, fully costed in terms of both revenue and capital funding over the life of the asset created. Additionally the repayment of prudential borrowing debt is over a period no longer than the life of the asset created.

### 3. Financial Standing

2005 Score 2 out of 4

	<b>Improvements required</b>	<b>Lead Officer</b>	<b>Target Date</b>	<b>Actions</b>
(a)	Take action to correct the base budget.	Director of Resources	March 06	The Director of Resources has taken steps to correct the base budget as part of 2006/07 Budget Setting process. See budget report to Council on 10 <sup>th</sup> March 2006.
(b)	Constantly maintain spending within overall budget without significant unexpected overspends or under spends.	Director of Resources	March 06	Corporate Management Board has agreed that budgets must be managed to come in at or below the approved budget for the year.  All Directors must prepare a budget plan for the forthcoming financial year immediately the Budget for the year is approved.  Action plans for each Directorate are also required in order to contain spend within the approved budget during the year.
(c)	Demonstrate that target levels for reserves and balances are based on a thorough understanding of needs and risks, including the Treasury Management Strategy and that these targets are met.	Director of Resources	July 06	See Director of Resources work on the Medium Term Financial Strategy.
(d)	Demonstrate that monitoring information is available that evaluates the effectiveness of recovery actions, associated costs and the costs of not recovering debt.	Mike Toney	July 06	Mike Toney is looking into this issue. A copy of the Comprehensive Performance Assessment feedback had been passed to Mike Toney.



#### 4. Internal Control

2005 Score 2 out of 4

	<b>Improvements required</b>	<b>Lead Officer</b>	<b>Target Date</b>	<b>Actions</b>
(a)	Revise Cabinet's terms of reference to include responsibility for risk management.	David Keetch	Done	Amendment now included in the Constitution. (See Part 6 The Executive 6.2.2.1)
(b)	Develop partnership risk management arrangements.	Tony Ford	July 06	George Bromage attending CIPFA training session prior to suggesting possible developments.
(c)	Provide risk management training for officers and members.	Andrew Tanner	August 06	Members risk management seminar has been organised for 4 <sup>th</sup> April 2006. AT to run rolling training programme for officers. Include as part of Audit Committee training made available to all members.
(d)	Further develop and demonstrate the quarterly risk management reporting.	Andrew Tanner	August 06	Andrew Tanner to collect more evidence. Directorates advised that Risk Management should be on DMT agendas quarterly.
(e)	Develop the assurance framework, in particular mapping strategic objectives to risks, controls and assurances.	Tony Ford	Done	Report to Audit Committee on 20 <sup>th</sup> February 2006.
(f)	Develop the role of the Audit Committee to provide effective leadership on audit and governance issues.	Tony Ford	March 06	Recommendations made to Audit Committee on 20 <sup>th</sup> February 2006. Follow up report to the Audit Committee on 7 <sup>th</sup> April 2006.
(g)	Demonstrate how business critical systems are identified and procedure notes/manuals reviewed and updated	Tony Ford	April 06	Processes now in place to demonstrate how critical system are identified. These systems will form part of the Audit plan for 2006/07. Procedures are reviewed annually in line with the Audit Commission timetable.

	<b>Improvements required</b>	<b>Lead Officer</b>	<b>Target Date</b>	<b>Actions</b>
	annually.			
(h)	Ensure that Standing Orders and Financial Regulations are reviewed annually.	Andrew Tanner	April 06	AT to ensure an annual review takes place.  Links into review of Financial Policies. Changes to Standing Orders and Financial regulations will be necessary.
(i)	Demonstrate how compliance with the standing orders, standing financial instructions and the scheme of delegation is monitored, breaches identified and action taken.	Tony Ford	June 06	Links to the Audit Plan have been outlined in the Audit Plan Report to the Audit Committee on 7 <sup>th</sup> April.  Needs to be part of the Assurance Framework
(j)	Ensure Statement of Internal Control is a separate process throughout the year process.	Tony Ford	June 06	See Statement of internal Control report to Audit Committee on 20 <sup>th</sup> February 06.  Tony Ford doing progress report to the Audit Committee on 7 <sup>th</sup> April.

## 5. Value for Money

### Overall

The evidence to support achievement is stronger than that to support management and improvement. We therefore need to focus the improvement plan on getting the process better. Corporate Finance Group should be able to provide this consistency across the Council.

	<b>Improvements required</b>	<b>Lead Officer</b>	<b>Target Date</b>	<b>Actions</b>
(a)	Audit Commission mention that integrated reporting was in its infancy, this now needs to be developed to track the average costs of service provision where applicable and include these in reports as a priority.	Andrew Tanner	August 06	
(b)	Surveying of user experiences needs to be consistent across the board (not good in Social Care) although this does not lie in our area. Steve Martin will be a good first point of contact here.	Andrew Tanner	August 06	

	<b>Improvements required</b>	<b>Lead Officer</b>	<b>Target Date</b>	<b>Actions</b>
(c)	Corporate core costs are high and these will need to be reviewed during closing.	Heather Foster	June 06	The way we complete the Government RA form has been reviewed and changed for 2006/07. In addition Property and Info will in future be treated in the 2005/06 Accounts and following years, as support services.
(d)	More consistent use of benchmarking for service costs (part of Corporate Finance Group remit together with using average/unit cost info in corporate reporting).	David Keetch	August 06	
(e)	We need to review whether VFM being achieved in voluntary sector contributions (scrutiny concluded we are weak here).	Greg Evans	August 06	
(f)	Potential weakness in linking capital with corporate priorities – need to be more explicit in this link in capital programme reports but capital strategy explains links pretty well (and highly praised by SMC).	Andrew Tanner	August 06	

	<b>Improvements required</b>	<b>Lead Officer</b>	<b>Target Date</b>	<b>Actions</b>
(g)	Procurement strategy does need to be properly implemented. I do think we need to at least try and show we are stronger here although in the absence of a central procurement unit it could be difficult.	Sonia Rees	August 06	New Procurement post expected in the Resources structure together with proposals as part of the Corporate Strategy building on detailed work done by AXON.
(h)	Not established corporate benchmarking arrangements – can I suggest we set some targets for Corporate Finance Group to rectify this and prepare a once yearly Cabinet report? I don't want to make an industry of this due to questionable added value but once year should not be onerous and links in well with the Gershon Efficiency non-cashable gains.	Andrew Tanner	August 06	
(i)	Role of Scrutiny in performance review will be picked up as part of corporate improvement plan for CPA.	Andrew Tanner	August 06	

(j)

<b>Improvements required</b>	<b>Lead Officer</b>	<b>Target Date</b>	<b>Actions</b>
Overall FLAES 06/07 in particular needs to be explicit in links between efficiency strands and also driven by Senior Management Team. Senior Management Team agendas will include regular (monthly) Efficiency reports.	Andrew Tanner	June 06	

**AUDIT COMMISSION REPORTS****Report By: Principal Audit Manager****Wards Affected**

County-wide

**Purpose**

To inform Members on the arrangements to manage the process of receipt and action follow up on all Audit Commission reports received by the Council.

**Financial Implications**

None.

**Reasons**

The Council now has in place a Statement of Internal Control Assurance Framework, which was approved by the Audit Committee. Part of the process involves actions that arise from the Council's Annual Audit and Inspection Letter and associated reports.

**Background**

Previously there was no clear approach on how Audit Commission reports were dealt with by the Council. Bearing in mind the impact these reports could have on the Council's Statement of Internal Control and the benefit of improved financial performance management, it is now appropriate to have a more formal approach when dealing with Audit Commission reports effective from April 2006. This is a view strongly shared by the Audit Commission.

**Considerations**

1. At the start of each financial year the Audit Commission will inform the Audit Committee of the reviews it intends to undertake as part of their audit arrangements.
2. The relevant Head of Service will be appointed the Council's lead officer and the Audit Commission staff carrying out the review will liaise direct with this officer.
3. Copies of the draft report will be sent to the Head of Service and the Principal Audit Manager.
4. The Head of Service will then have three weeks to comment on the draft, this will include having a meeting with the Audit Commission and the Principal Audit Manager to discuss the report.
5. Once finalised the Audit Commission will send copies of reports to the client Director, the Director of Resources, the relevant Head of Service and the Principal Audit Manager.

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

6. The final report will identify priority 3 recommendations, these being high risk areas for prompt action.
7. All action plans will be signed off by the relevant Head of Service and returned to the Audit Commission within two weeks of receipt of the final report.
8. Copies of all signed action plans must be sent to the relevant Director and the Principal Audit Manager.
9. The Principal Audit Manager will inform the Audit Committee of the progress being made on priority 3 recommendations. With regards to priority 1 and 2 recommendations these will also be monitored by the Principal Audit Manager but will form part of the general assurance reporting to Members. However where there is a lack of progress on priority 1 and 2 recommendations, this will be brought to the attention of the Audit Committee at the next available meeting.

## **Risk Management**

If the Council does not have a robust process for managing Audit Commission reports there is the possibility that required actions are not acted upon, which could impact adversely on the Council's Statement of Internal Control and financial performance.

## **Recommendation**

**THAT the process for dealing with all Audit Commission reports be adopted.**

## **BACKGROUND PAPERS**

CIPFA guidance on Audit Committees



## AUDIT COMMITTEE MEMBERSHIP

Report By: Principal Audit Manager

### Wards Affected

County-wide

### Purpose

To inform Members on the membership of the Council's Audit Committee.

### Financial Implications

None.

### Reasons

The CPA Use of Resources highlights the criteria for judgement in relation membership of the Audit Committee as:

- 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).

### Background

1. The Audit Committee within Herefordshire Council is developing and it will take time for it to fully meet the needs of the Members and comply with the Use of Resources criteria.
2. The CIPFA Guidance on Audit Committees has set out criteria for membership of Audit Committees.

### Considerations

3. A previous report to the Audit Committee highlighted that Cabinet Members and Strategic Monitoring Committee Members were on the Audit Committee, which was not in line with the guidance requirement that Audit Committee Members need to be sufficiently independent of other key committees of the Council.
4. The gap analysis also highlighted that the Chairman of the Audit Committee is also involved in the Council's scrutiny function as the Chairman of the Community Services Scrutiny Committee. This is not in line with good practice either.
5. However it should be noted that the Council's Audit Commission Manager informed the last Audit Committee that he had a flexible approach to membership of the Audit Committee as long as it was functional and worked for Herefordshire.
6. At the request of the Audit Committee the Principal Audit Manager has contacted

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

other audit colleagues at other local authorities enquiring about the make up of their Audit Committees (Appendix 1 refers).

7. Including Herefordshire Council there were 11 authorities with Audit Committees. The analysis showed:

Number with Executive Members included	7
Number with Scrutiny Members included	9
Number with Executive and Scrutiny Members included	7
Number with no Executive or Scrutiny Members included	2

8. The number of Members on Herefordshire's Audit Committee is in line with the numbers for other authorities.
9. In addition the Cabinet Member (Resources) attends in an ex-officio capacity.
10. Members will need to consider the change of Chairman following the next election in May 2007 and the possibility of an external Chairman if an appropriate person can be found.
11. Group Leaders may wish to change their group representation, although some consistency preferred between now and May 2007 in order to help establish the Audit Committee.
12. Of the eight identified Chairmen of Audit Committees none had Executive responsibilities, with 4 having Scrutiny responsibilities.

## **Risk Management**

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 in 2007.

## **Recommendation**

**THAT The report be noted and used to facilitate future Member discussions on the membership of the Audit Committee.**

## **BACKGROUND PAPERS**

CIPFA guidance on Audit Committees

**LOCAL AUTHORITY  
AUDIT COMMITTEE ANALYSIS**

Authority		Audit Committee/Equivalent	Number of members	Chairman	Members on Executive	Members on Scrutiny	Other	Comment
		Name						
Milton Keynes (Unitary)	N	Performance Review & Audit Panel						Intends to set up a discrete Audit Committee with a independent Chair and other members to represent other parties
Telford & Wrekin (Unitary)	Y	Audit Committee	5	Other	0	0	5	Their Cabinet arrangements mean that members cannot be on another decision making panel.
Luton (Unitary)	N	Performance, Resources and Assets Scrutiny Committee						
Isle of Wight (Unitary)	Y	Audit Committee	7	Other	0	1	6	
Darlington Borough (Unitary)	N							Hope Audit Committee will be set up within next few weeks
West Berkshire (Unitary)	Y	Governance & Audit Committee	7	?	2	3	2	
North Somerset (Unitary)	N							Report to Finance Scrutiny Committee
East Riding of Yorkshire (Unitary)	N							They have permission to set one up and intend to do so at AGM of May 2006.
Herefordshire (Unitary)	Y	Audit Committee	6	Scrutiny	2	3	1	
Amber Valley	Y	Governance & Audit Board	6	Scrutiny	3	3	0	
East Staffordshire	N	Resource & Financial Management and Corporate Affairs Scrutiny Committee						Meets twice a year as the Audit Committee
South Shropshire	N	Scrutiny Committee						Members opposed to having any more Committees
Huntingdonshire DC	Y	Audit Committee	7	Other	3	2	2	
Newark& Sherwood DC	Y	Audit Committee	6	?	0	4	0	
Bridgnorth	Y	Audit Committee	6	Scrutiny	4	4	0	

Authority		Audit Committee/Equivalent	Number of members	Chairman	Members on Executive	Members on Scrutiny	Other	Comment
Gloucester City	N							
Newcastle-under-Lyme	N	General Purpose Committee						Deals with Personnel, Structure, recruitment performance management, risk management and Internal Audit
Vale of White Horse DC	N	Scrutiny Committee						
Ashfield DC	Y	Audit Committee		?	Yes	Yes		Members are either on the Executive or Scrutiny.
Warwick DC	Y	Audit & Resources Scrutiny Committee	9	Scrutiny	7	2	0	
Cannock Chase	N							In the process of setting up a Audit and Governance Committee and its member will be allowed to have other roles but cannot be members of the Cabinet or Scrutiny Committees
Blaby	N							
Worcestershire Council	Y	Audit & Governance Committee	6	Other	0	0	6	
Sandwell Metropolitan Borough	N							
Walsall Metropolitan	N							
Warwick Council	N							

## AUDIT PLAN 2006-07

Report By: Principal Audit Manager

### Wards Affected

County-wide

### Purpose

To report on the process used to develop the Annual Plan for 2006/07.

### Financial Implications

None.

### Reasons

Preparation of the Audit Strategy and Audit Plan represents best practice and is an integral part of the Council's internal controls and procedures under the CPA Use of Resources.

### Considerations

- 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 1<sup>st</sup> 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 Herefordshire Council also has an obligation to include in its Statement of Accounts a statement on the system of internal financial control. The statement should set out the framework within which financial control is managed and reviewed and the main components of the system, including arrangements for internal audit. This statement reports on significant identified weaknesses and the actions undertaken to rectify them.
- 3 The work of Audit Services forms a significant part in the Council meeting its obligations under Regulation 4 of the Accounts and Audit Regulations and in the compilation of the Council's Statement of Internal Control. In addition, Audit Services work makes an important contribution to the Council's CPA rating in the Use of Resources category. Limiting the Council's vulnerability to fraud and corruption and adhering to financial controls are key lines of enquiry in this assessment. The first call on audit resources will always be from the corporate governance and control perspective although the skills inherent within the team can positively contribute to other corporate initiatives where possible.

- 4 The Code of Practice for Internal Audit in Local Government in the United Kingdom (2003) 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. Any differences between the plan and resources available should be identified and reported to the organisation'.
- 5 The approach to preparing the Annual 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.
  - Establishment visits.
  - Verification and Probity Reviews.
6. Each area is assessed for potential risks and 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 upon their last Audit opinion and current knowledge including a review of Risk Registers at Corporate and directorate Level.
7. A key part of the risk methodology is that fundamental systems are always red no matter what their previous audit opinion is, as these are critical systems whose failure could cause major disruption or loss of financial control to the Council. These systems are identified by an analysis of the Council's last published accounts and further identification of the information systems impacted upon. In addition, bank account schools are always red because of their level of independence from the Council's control systems.
8. Links to the Council's Standing Orders and Financial Regulations, and scheme of delegation are evidenced by audit work set out below:
  - Establishments and School audits cover inventories, budget monitoring and control, procurement and contracts, purchasing and stock control, income, Insurance, voluntary funds and imprest accounts.
  - Reviews at Directorate level cover compliance with Standing Orders for the Regulation of Contracts;
  - A review of the Gifts and Hospitality Register; and receipt of written assurances from Corporate Management Board members and all Heads of Service relating to gifts and hospitality.
  - Fundamental reviews such as those covering Debtors, Asset Register, Treasury Management, Creditors, Payroll also contribute; and
  - Reviews of delegation arrangements at Directorate level is a new development added for 2006/07.

9. Following the risk assessment, the base plan identified 2,534 days of resources. Required adjustments are then made to align the plan to available resources i.e. 2,459 days. (Appendix 1 refers).
10. The reduction in the base plan was achieved by reducing the number of:
- System audit by one saving 15 days;
  - School audits by four saving 40 days;
  - Establishment audits by two saving 20 days
11. It should be also be noted that some 76 (85%) Primary and Special Schools have not had an audit visit in the previous four years. Although not high risk areas individually, they do have a substantial risk as a group. Although 115 days has been allocated to primary schools within the plan, this does not represent enough audit cover to clear the backlog or meet the current years' requirement. Audit Services will continue to work with LMS and Finance to give training to school administrators.
12. At the present time there is a vacant post within Audit Services. It is anticipated that it will not be filled until the latter part of the year due to the current restructure of the Resources Directorate. Temporary resources have been brought in to cover until September 2006.
13. The Audit Commission requirements for 2006/7 are that fundamental systems are completed and ready for their review as follows:
- | <b>Date</b> | <b>Fundamental System</b>   |
|-------------|---|
| 31/01/2007  | Payroll (Schools and Non Schools)<br>Housing Benefits<br>Council Tax<br>Creditors<br>Bank Reconciliation        |
| 28/02/2007  | F.M. System Budget Setting & Reporting<br>NNDR<br>Debtors<br>SAPS   |
| 31/03/2007  | Cash and Deposits<br>Asset Register<br>Treasury Management<br>Financial Management Schools<br>Supporting People |
14. The Principal Audit Manager is currently liaising with Directors and Heads of Service to ensure that the requirements of the Audit Commission are met in full.
15. The Plan also reflects continuing Audit Services involvement in supporting key corporate priorities such as the Performance Management Framework, Project Management, Risk Management including helping to develop partnership risk management arrangements, Local Public Service Agreements (LPSA), Local Area Agreements (LAA) and Herefordshire Connects.
16. Resources have also been put in the plan to carry out work in relation to the waste management PFI agreement.
17. Any revisions to the plan for 2006/07 will be reported in November 2006 and will reflect any changes in resources and new audit work identified.
18. Appendix 1 shows the detailed Audit Plan and Appendix 2 shows the detailed Audit

Service Strategy.

19. There has been extensive consultation with Directors, and their views, subject to resources, have been taken into account in determining the areas that require audit attention.

## **Risk Management**

There is the risk that the Audit Plan is not completed. The key control measure will be monthly progress reports to the Director of Resources and progress on the Audit plan will form part of the Interim Assurance Report to the Audit Committee. If required temporary resources will be brought in to cover any vacancies if they arise.

## **Recommendation**

**THAT the Audit Strategy and Audit Plan for 2006/07 be adopted.**

## **BACKGROUND PAPERS**

The Code of Practice for Internal Audit in Local Government in the United Kingdom.



## Appendix 1

### AUDIT SERVICES - AUDIT PLAN 2006/7

Area	Activity	Risk	Days	Register
<b>AUDIT SERVICES</b>		N/a		
<b>Administration and Management</b>				
Health and Safety	Administration and Management		3.00	
Recruitment and Selection	Administration and Management		5.00	
Service Management	Administration and Management		70.00	
General Office Duties	Administration and Management		70.00	
Audit Briefing Meetings	Administration and Management		20.00	
Tardis Management	Administration and Management		10.00	
Audit Manual	Administration and Management		10.00	
Customer Liaison	Administration and Management		16.00	
Hereford & Worcester Audit Group	Administration and Management		4.00	
Audit Plan	Administration and Management		20.00	
Benchmarking Club	Administration and Management		5.00	
<b>TOTAL</b>			<b>233.00</b>	
<b>Non-Audit Work</b>				
		N/a		
Controlled Stationery	Non-Audit Work		10.00	
IT Services and Problems/time delays	Non-Audit Work		10.00	
<b>TOTAL</b>			<b>20.00</b>	
<b>Staff Development</b>				
		N/a		
Audit Staff Review and Development etc	Staff Development		10.00	
<b>TOTAL</b>			<b>10.00</b>	
<b>Leave</b>				
		N/a		
Annual Leave	Leave		270.00	
Sick Leave	Leave		95.00	
Bank Holidays	Leave		72.00	
Special Leave	Leave		10.00	
<b>TOTAL</b>			<b>447.00</b>	
<b>Vacant Post</b>				
		N/a		
Vacant Posts / Secondment	Vacant Post		20.00	
<b>TOTAL</b>			<b>20.00</b>	
<b>Training</b>				
		N/a		
Professional Training	Training		40.00	
In House Training	Training		30.00	
Seminars	Training		5.00	
<b>TOTAL</b>			<b>75.00</b>	

**AUDIT SERVICES - AUDIT PLAN 2006/7**

Area	Activity	Risk	Days	Register
<b>TOTAL FOR AUDIT SERVICES</b>			<b>805.00</b>	
<b>CHIEF EXECUTIVE DEPARTMENT</b>				
<b>General Work/Advice</b>		Green		
Non-specific	Other Chargeable		0.75	
Chairman's Imprest Account	Cash up		0.25	
<b>TOTAL</b>			<b>1.00</b>	
<b>HUMAN RESOURCES</b>				
		Amber		
General Audit Work/Advice	Other Chargeable		1.00	
Computerised human Resources Info System	Verification/Probity		10.00	
Control of ID cards	Recs Follow up		3.00	
<b>TOTAL</b>			<b>14.00</b>	
<b>TOTAL FOR DEPARTMENT</b>			<b>15.00</b>	
<b>ADULT AND COMMUNITY SERVICES</b>				
<b>DIRECTORATE</b>				
<b>DIRECTORATE</b>		Red		
Delegation Arrangements	Verification/Probity		10.00	
<b>TOTAL</b>			<b>10.00</b>	
<b>ADULT SOCIAL CARE SERVICES DIVISION</b>				
		Red		
Agency Payments	System		15.00	<b>X</b>
Residential Assessments/Contribution Orders	System		15.00	<b>X</b>
In House Home Care Cash Handling	System		15.00	
Payments to Independent Providers	System		15.00	<b>X</b>
Direct Payments to Service Users	System		15.00	<b>X</b>
CSCI Performance Judgment	System		20.00	<b>X</b>
<b>TOTAL</b>			<b>95.00</b>	
<b>STRATEGIC HOUSING DIVISION</b>		Amber	<b>0.00</b>	
<b>ECONOMIC &amp; COMMUNITY SERVICES</b>				
<b>DIVISION</b>		Amber		
Library Administration	Establishment		10.00	
Regeneration Development	F & C		6.00	
<b>TOTAL</b>			<b>16.00</b>	
<b>COMMISSIONING &amp; IMPROVEMENT</b>		Amber		

**AUDIT SERVICES - AUDIT PLAN 2006/7**

<b>Area</b>	<b>Activity</b>	<b>Risk</b>	<b>Days</b>	<b>Register</b>
<b>DIVISION</b>				
Contract Letting/Monitoring	F & C		8.00	
<b>TOTAL</b>			<b>8.00</b>	
*				
<b>TOTAL FOR DIRECTORATE</b>			<b>129.00</b>	
<b>CHILDREN AND YOUNG PEOPLE'S DIRECTORATE</b>				
<b>Directorate</b>		Red		
Delivery of JAR Action Plan	CPA		10.00	<b>X</b>
General Audit Work/Advice	Other Chargeable		5.00	
Bank Mandates	Other Chargeable		5.00	
Directorate Delegation	Verification/Probity		10.00	
<b>TOTAL</b>			<b>30.00</b>	
<b>COMMISSIONING &amp; IMPROVEMENT SCHOOLS &amp; SERVICES DIVISION</b>				
<b>High Schools- Bank Account</b>		Red		
General Audit Work/Advice	Other Chargeable		10.00	
John Masefield High - Ledbury	Recs Follow up		8.00	
Queen Elizabeth High - Bromyard	School Audit		17.00	
Kingstone High	School Audit		17.00	
<b>TOTAL</b>			<b>52.00</b>	
<b>High Schools-Non Bank Account</b>		Amber		
General Audit Work/Advice	Other Chargeable		10.00	
Aylestone High - Hereford	School Audit		15.00	
John Kyrle High - Ross on Wye	School Audit		15.00	
Haywood High - Non Bank	School Audit		15.00	
Weobley High - Non Bank	School Audit		15.00	
<b>TOTAL</b>			<b>70.00</b>	
<b>Special Schools- Bank Account</b>		Red		
General Audit Work/Advice	Other Chargeable		2.00	
Barrs Court Hereford	School Audit		17.00	
<b>TOTAL</b>			<b>19.00</b>	
<b>Special Schools-Non Bank Account</b>		Amber		
General Audit Work/Advice	Other Chargeable		2.00	
Brookfield - Hereford	School Audit		10.00	
Aconbury Centre	School Audit		10.00	
<b>TOTAL</b>			<b>22.00</b>	

**AUDIT SERVICES - AUDIT PLAN 2006/7**

<b>Area</b>	<b>Activity</b>	<b>Risk</b>	<b>Days</b>	<b>Register</b>
<b>Primary Schools - Non-Bank Accounts</b>		Amber		
General Audit Work/Advice	Other Chargeable		15.00	
Almeley Primary	School Audit		10.00	
Ashperton Primary	School Audit		10.00	
Bodenham, St. Michael's C. E. Primary	School Audit		10.00	
Bosbury C. E. Primary	School Audit		10.00	
Brampton Abbots C. E. Primary	School Audit		10.00	
Bredenbury Primary	School Audit		10.00	
Bridstow C. E. Primary	School Audit		10.00	
Brilley Parochial Primary	School Audit		10.00	
Brockhampton (Bromyard) Primary	School Audit		10.00	
St. Peter's Primary - Bromyard	School Audit		10.00	
<b>TOTAL</b>			<b>115.00</b>	
<b>INTEGRATED SERVICES DIVISION</b>				
<b>OTHER</b>		Amber		
Education Transport	Consultancy		10.00	
Capital Grants	Systems		10.00	<b>X</b>
Contract Letting/Monitoring	F & C		10.00	
			<b>30.00</b>	
<b>Youth Service</b>		Amber		
Leominster and Wigmore Youth Service	Establishment		10.00	
<b>TOTAL</b>			<b>10.00</b>	
<b>Early Years</b>		Amber		
Early Years Development - Site visits	Recs follow up		10.00	
<b>TOTAL</b>			<b>10.00</b>	
<b>TOTAL FOR DIRECTORATE</b>			<b>358.00</b>	
<b>CORPORATE</b>				
<b>Corporate Projects</b>		Red		
National Fraud Initiative	F & C		10.00	
Honorarium Payments	System		10.00	
Quarterly Control Reports-Directors Updates	Ad-hoc Reports		20.00	
Assurance Reports	Ad-hoc Reports		20.00	
External Audit Liaison	Audit Commission		5.00	
Staff Review and Development	System		20.00	
Environmental Management Auditing	GEM		10.00	

**AUDIT SERVICES - AUDIT PLAN 2006/7**

<b>Area</b>	<b>Activity</b>	<b>Risk</b>	<b>Days</b>	<b>Register</b>
CPA-Use of Resources Action Plan	CPA		20.00	<b>X</b>
Performance Indicators	Performance Management		125.00	
Charging and Trading Arrangements	Ad-hoc Reports		20.00	
Managing Attendance	System		20.00	
LPSA Targets	Performance Management		15.00	<b>X</b>
Section 106 Agreements	System		10.00	
Performance Management Framework	Performance Management		20.00	<b>X</b>
Anti Money Laundering Procedures	Recs follow up		5.00	
Project Management	System		20.00	
SIC/Corporate Governance	System		20.00	
Risk Management	System		20.00	
Business Continuity	Verification		10.00	
Register of Interest, Gifts and Hospitality	F & C		10.00	
Diversity	Verification		10.00	<b>X</b>
<b>TOTAL CORPORATE</b>			<b>420.00</b>	
<b>CORPORATE AND CUSTOMER SERVICES DIRECTORATE</b>				
<b>POLICY AND PERFORMANCE DIVISION</b>		Red		
General Audit Work/Advice	Other Chargeable		10.00	
<b>TOTAL</b>			<b>10.00</b>	
<b>ICT AND CUSTOMER SERVICES DIVISION</b>		Red		
Grants and Donations	System		10.00	
Hereford Registrars	Establishment		10.00	
Modern Records	Establishment		10.00	
Management of Software Licences	Computers/ICT		5.00	
E.Gateway/Government	Computers/ICT		10.00	
Firewall Security	Computers/ICT		10.00	
Acquisition of Equipment	Computers/ICT		8.00	
Contract Tendering/Monitoring	F & C		8.00	
Back up and Recovery	Computers/ICT		8.00	
Use of Contractors	Computers/ICT		10.00	
ICT Gap Analysis	Computers/ICT		10.00	
<b>TOTAL</b>			<b>99.00</b>	
<b>LEGAL &amp; DEMOCRATIC DIVISION</b>		Amber		
Members Expenses/Register of Interest	System		10.00	
<b>TOTAL</b>			<b>10.00</b>	

**AUDIT SERVICES - AUDIT PLAN 2006/7**

Area	Activity	Risk	Days	Register
<b>TOTAL DIRECTORATE</b>			<b>119.00</b>	
<b>ENVIRONMENT DIRECTORATE</b>				
<b>ENVIRONMENTAL HEALTH &amp; TRADING STANDARDS DIVISION</b>		Amber		
Income from Trade Waste	System		8.00	
Recycling Income	System		8.00	
Market fees and Charges	System		8.00	
Cemeteries & Crematorium	System		8.00	
Waste Management Contract			15.00	
<b>TOTAL</b>			<b>47.00</b>	
<b>PLANNING SERVICES DIVISION</b>		Amber		
Fees and Charges	System		8.00	
<b>TOTAL</b>			<b>8.00</b>	
<b>HIGHWAYS &amp; TRANSPORTATION DIVISION</b>		Amber		
Budgetary Control	System		12.00	<b>X</b>
<b>TOTAL</b>			<b>12.00</b>	
<b>ENVIRONMENTAL SUPPORT</b>		Amber		
Hereford Jarvis/Owen Williams Partnerships	Partnership		20.00	
Contract Tendering /Monitoring	F & C		10.00	
<b>TOTAL</b>			<b>30.00</b>	
<b>TOTAL FOR DIRECTORATE</b>			<b>97.00</b>	
<b>FUNDAMENTALS</b>		Red		
<b>FINANCIAL SERVICES DIVISION</b>				
F. M. Systems Budget Setting & Reporting	Fundamental		25.00	<b>X</b>
Bank Reconciliation	Fundamental		25.00	
Treasury Management	Fundamental		20.00	
Asset Register	Fundamental		20.00	
Salaries and Wages	Fundamental		25.00	
<b>TOTAL</b>			<b>115.00</b>	
<b>INTEGRATED SERVICES DIVISION</b>				
Financial Management System-Schools	Fundamental		25.00	<b>X</b>
Salaries and Wages- Schools	Fundamental		25.00	
<b>TOTAL</b>			<b>50.00</b>	
<b>REVENUES &amp; EXCHEQUER DIVISION</b>				
Sundry Debtors	Fundamental		20.00	

### AUDIT SERVICES - AUDIT PLAN 2006/7

Area	Activity	Risk	Days	Register
NDR	Fundamental		25.00	
Council Tax	Fundamental		25.00	
Housing Benefit	Fundamental		25.00	
Cash and Deposits	Fundamental		25.00	
Creditors			25.00	X
<b>TOTAL</b>			<b>145.00</b>	
<b>STRATEGIC HOUSING DIVISION</b>				
Supporting People	Fundamental		20.00	X
			<b>20.00</b>	
<b>Corporate and Customer Services</b>				
SAP System Budgetary Control/reporting	Fundamental		20.00	X
<b>TOTAL</b>			<b>20.00</b>	
<b>TOTAL FUNDAMENTAL</b>			<b>350.00</b>	
<b>RESOURCES DIRECTORATE</b>				
<b>DIRECTORATE</b>				
		Green		
General Audit Work/Advice	Other Chargeable		10.00	
<b>TOTAL</b>			<b>10.00</b>	
<b>BENEFITS AND EXCHEQUER DIVISION</b>				
		Amber		
Creditor Emergency Payments	System		8.00	
<b>TOTAL</b>			<b>8.00</b>	
<b>FINANCIAL SERVICES DIVISION</b>				
		Amber		
Financial/Budgetary Control -Adult Services	System		20.00	
Car Loans	F & C		10.00	
<b>TOTAL</b>			<b>30.00</b>	
<b>ASSET MANAGEMENT &amp;PROPERTY SERVICES DIVISION</b>				
		Red		
Management of Property Portfolio	System		10.00	X
Contract Tendering/Monitoring	F & C		8.00	
<b>TOTAL</b>			<b>18.00</b>	
<b>PROCUREMENT</b>				
		Red		
General Audit Work/Advice	Other Chargeable		10.00	
			<b>10.00</b>	
<b>TOTAL DIRECTORATE</b>			<b>76.00</b>	
<b>Audit contingency</b>	Contingency	N/a	<b>90.00</b>	

**AUDIT SERVICES - AUDIT PLAN 2006/7**

Area	Activity	Risk	Days	Register
TOTAL FOR ALL SERVICES			2459.00	



## AUDIT SERVICE STRATEGY 2006/7

### 1 INTRODUCTION

- 1.1 The Audit terms of reference are very comprehensive and are set out in the Audit Charter previously approved by Cabinet.
- 1.2 The strategy;
- Outlines how the service will be provided.
  - State how the assurance as outlined in the annual statement of internal control will be demonstrated and will include how Audit Services will contribute to the review of;
    1. The Council's corporate governance arrangements;
    2. Risk management process; and
    3. Key internal control systems.
  - Establish the resources required for its delivery;
  - Set out the relative allocation of audit resources between assurance work and any fraud-related or consultancy work;
  - Reflects how the Principal Audit Manager prepares the risk-based audit plan designed to implement the audit strategy, taking account of the Council's risk management process. Any differences between the plan and resources available will be identified and reported. The risk-based plan will outline assignments to be carried out and the broad resources required for its delivery.
- 1.3 The audit plan will be kept under review to enable identification of amendments needed to reflect changes in priorities and emerging risks. The Audit Committee will approve material changes to the Audit Plan.

### 2 AUDIT COMMITTEE

- 2.1 The Council's newly created Audit Committee is now operational. The Audit Committee's terms of reference are:

To provide independent assurance of the adequacy of the Council's risk management framework and the associated control environment, 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;
- (a) The Head of Internal audit's annual report;
- (b) The arrangements made for co-operation between Internal Audit, External Audit and other review bodies;
- (c) Periodic reports by External Auditors; and
- (d) Approval of the Council's Statement of Accounts and associated reports.

### **3. PROVISION OF SERVICE**

- 3.1 Currently the service is provided in-house and supplemented by an external computer auditor. This mix works well bearing in mind the ever-changing world of ICT and the specific skills required for computer audit work.
- 3.2 ICT audit training and development will continue to be a key training area for all audit staff, and with other training will ensure that Audit Services staff provide a comprehensive audit service to the Council.
- 3.3 The service has been under pressure, bearing in mind the ever-increasing need for computer auditing technical advice, giving assurance on controls and the meeting of corporate ICT objectives and targets.
- 3.4 Additionally the Audit Commission no longer carries out any assurance work but relies solely on the work of Audit Services.
- 3.5 It is proposed that the service continues to be provided in-house supplemented by an external computer auditor.

### **4. DEMONSTRATE THE RESILIENCE OF AUDIT OPINION**

- 4.1 The Audit opinion on the Council's systems of internal control will be based on a review of the following:
  - Financial standards, which will cover the Council's Fundamental Systems;
  - Non-Fundamental Systems;
  - Corporate Governance arrangements to include Anti-Fraud activity;
  - Best Value Performance Indicators;
  - Risk Management Arrangements;
  - ICT protocols and controls;
  - Establishment visits;
  - Verification and probity audits;
  - Corporate issues as they arise;
  - Level of recommendations agreed for action by management; and
  - Results of recommendations follow-up.
- 4.2 An audit opinion will be given to each segment on which the Council's overall opinion will be based and reported. (Paragraph 9 refers)

### **5 CONTRIBUTION TO THE REVIEW OF THE COUNCILS CORPORATE GOVERNANCE ARRANGEMENTS**

- 5.1 Audit Services work will confirm that:

- The Authority has established a Standards Committee and adopted a code of conduct for members, incorporating the mandatory requirements of the model code;
- Members have signed a formal declaration accepting the terms of the code;
- Arrangements are in place for members to monitor and test the operation of the new framework;
- Information about the implications of the new arrangements has been disseminated to the public, our partners, members and staff;
- Key Corporate Governance documentation is in place and remains up to date;
- Key corporate documents are made available to the public partners staff and members;
- There are arrangements in place for members to monitor and test the operation of the CIPFA/SOLACE framework;
- Staff and members receive training and guidance on what key corporate documentation and arrangements mean for their behaviour; and
- That the Council's Whistle-blowing Policy is up to date and widely circulated.

## **6. REVIEW THE RISK MANAGEMENT PROCESS**

### 6.1 Audit work will confirm:

- That there are arrangements for risk identification, and that assessment and management actions are in place for all key financial and operational risks;
- Involvement of members in considering key risks and responses;
- Risk Registers are in place, and are reviewed and updated on a regular basis; and

6.2 Audit Services will also have a role in, and provide advice, about risk management within the Council.

## **7 REVIEW KEY INTERNAL CONTROL SYSTEMS**

7.1 The Principal Audit Manager will carry out an annual assessment of the need to review all key financial systems.

7.2 The Principal Audit Manager will review all high-risk financial systems each year and medium risk financial systems on a cyclical basis.

## **8 RESOURCES TO COMPLETE THE PLAN**

8.1 Following the completion of the risk based audit plan, any differences between the plan and resources available will be identified and reported to members as appropriate. Members will also be informed of audits removed from the plan to align the risk based plan to audit resources.

## 9 INTERNAL CONTROL AUDIT OPINION MATRIX

	<b>Overall Opinion</b>	<b>Maximum % Weighting</b>
Financial standards, which will cover the Councils Fundamental Systems.		<b>25</b>
Non-Fundamental Systems.		<b>10</b>
Corporate Governance Arrangements to include Anti-Fraud activity.		<b>10</b>
Performance management/Best Value Performance Indicators.		<b>10</b>
Risk Management Arrangements.		<b>15</b>
I.C.T protocols and controls.		<b>15</b>
Establishment visits		<b>2.5</b>
Verification and probity audits		<b>2.5</b>
Other Corporate issues as they arise.		<b>2.5</b>
Level of recommendations agreed for action by management.		<b>2.5</b>
Results of recommendations follow up.		<b>5</b>
		<b>100</b>

<b>Key</b>		
	<b>Good</b>	<b>85 to 100</b>
	<b>Satisfactory</b>	<b>65 to 84</b>
	<b>Marginal</b>	<b>51 to 64</b>
	<b>Unsatisfactory</b>	<b>31 to 50</b>
	<b>Unsound</b>	<b>1 to 30</b>

**PROGRESS ON THE COUNCIL'S STATEMENT OF  
INTERNAL CONTROL****Report By: Principal Audit Manager****Wards Affected**

County-wide

**Purpose**

To update Members on the progress being made on the completion of the Council's Statement of Internal Control.

**Financial Implications**

None.

**Reasons**

The CPA Uses of Resources highlights the Criteria for judgement in relation to the Statement of Internal Controls follows:

- 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 s. (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)

## Considerations

1. Audit Services has reviewed the Corporate and all Directorate Risk Registers as part of the process to prepare the risk based Audit Plan for 2006/07.
2. The Interim Assurance Report was presented to the Audit Committee on 20th February 2006 and there were no issues of concern.
3. The Audit Commission is currently carrying out a stock-take of outstanding recommendations it wishes to see pursued. This is due for completion in early April 2006.
4. The Principal Audit Manager has reminded Directors and Heads of Service of their obligations by meeting with Directors and the Council's Senior Management Team.
5. Good progress is being made with regards to the receipt of the required written assurances to 31st December 2005.
6. The review of the Council's Register of Gifts and Hospitality is due to be completed by 17th April 2006.
7. The Monitoring Officer's report is being drafted and good progress is being made.
8. Current status on key action/improvement plans:
  - Joint Area Review – improvement plan complete, progress report to Cabinet on 30th March 2006;
  - CPA Use of Resources- separate report to the Audit Committee; and
  - CPA Corporate Assessment – improvement plan is being integrated into the Council's overall Improvement Programme.
9. The latest Integrated Performance Report covering the period to January 2006 was presented to Cabinet on 23rd February 2006. The report summarised progress including action being taken to address under performance.
10. The Principal Audit Manager will start work on the CIPFA Assurance Checklist in early April 2006.

## Risk Management

If the Council does not make satisfactory progress on embedding the assurance framework it could have an adverse effect on the Council's target to improve its CPA Use of Resources Judgement Assessment score.

## Recommendation

**THAT the progress report be noted.**

## BACKGROUND PAPERS

CIPFA guidance on the Statement of Internal Control.