

REPORT OF THE AUDIT COMMITTEE

Meetings Held on 20th February and 7th April, 2006

Membership:

Councillors: A.C.R. Chappell (Chairman), Mrs. P.A. Andrews, Mrs. J.P. French, T.M. James, R.I. Matthews, R.J. Phillips, Mrs. S.J. Robertson.

COMPLETION OF THE ACCOUNTS 2005/06

1. The Committee has noted that the date for the closing of the Statement of Accounts is 30th June, 2006 and that the timetable for completion is well on course. Although the deadline date had been 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; however, explanatory notes would be inserted to ease understanding. A summary document will be produced for the public.

CIPFA GUIDANCE ON AUDIT COMMITTEES

2. The Committee was reminded that at its first meeting in September 2005 information was given on the position statement guidance. This highlighted the need for:
 - the Committee to be a fully constituted committee of the Council, independent of both the Executive and Scrutiny functions;
 - Members to receive specific training relevant to their responsibilities;
 - the terms of reference to be reviewed annually, taking into account relevant governance developments;
 - the 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
 - effective leadership on audit and governance, with the Committee proactive in providing forward looking agenda items;
3. The Committee will be looking at how it can raise its profile. Currently the Committee is made up of Cabinet and Scrutiny Committee Members. However, CIPFA guidance requires that Members are sufficiently independent of other key committees of the Council. The Committee will therefore be re-examining its membership and consider changing the name of the Committee to the Corporate Governance Committee, to cover the other non-financial issues that would need to be dealt with. It felt that it might be more appropriate for backbench Members to make up the membership of the Committee and will be considering the appointment of a wholly independent Chairman. It is important that the Committee is made up of Members with not only financial experience, but a general business background also. The Committee agreed to oversee a number of strategies including Risk Management, the Assurance Framework and Codes of Corporate Governance, standards and behaviour.

4. A training programme is being put together for Members to cover any gaps there may be from the initial induction training Councillors' received. In line with good practice the Committee will meet four times a year.

AUDIT SERVICES INTERIM ASSURANCE REPORT 2005/06

5. The Committee looked at the progress that had been made on the Audit Plan and key internal control issues for 2004/05. 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. Positive action is to be taken to resolve the issues relating to the overspends.
6. The Committee was advised that there were only two 'critical one' recommendations and these relate to improved school controls over the use of a school mini bus and the details of the legislation and acts listed on the Council's various types of warrant cards. Good progress has been made on improvements; the final position will be reported in the end of year Assurance Report.
7. Two audits that met the criteria for reporting to the Committee were the Social Care financial management and budgetary control and anti-money laundering procedures. An action plan for Social Care has been prepared. CIPFA and the Council's legal department have provided guidance for anti-money laundering procedures. A training programme was implemented and is due for completion by the end of March 2006.
8. The CIPFA benchmarking club audit on Customer Satisfaction gave the Council an overall audit performance of good, with three areas identified for improvement.

STATEMENT OF INTERNAL CONTROL

9. The Statement of Internal Control Assurance Framework Protocols have been drawn up as per CIPFA guidance. It will take time for the assurance framework to be fully embedded in the Council's business processes. The Committee has noted the importance of the involvement of the Section 151 and Monitoring Officers to ensure the process is carried out throughout the year. A checklist has been developed for the Statement of Internal Control.
10. The Committee has noted how all the processes such as service plans; performance management; risk management; and Corporate Management Board/Senior Management Team; feed in to the Statement of Internal Control to make it a corporate document. The Audit Commission commented that there had been no link between the corporate risks and the Statement of Internal Control and this process will overcome that. The improvements resulting from the JAR Use of Resources and CPA reports are being put into practice, along with the a checklist, which links the key areas that make up the Statement of Internal Control and identifies any major gaps, these will be reported on to the Committee at its next meeting. Once the Chief Executive and Leader had signed off the Statement of Internal Control, it will be presented to the Committee.

USE OF RESOURCES IMPROVEMENT PLAN

11. The Committee has received a report on the Use of Resources Improvement Plan, which has been drafted in response to the feedback from the CPA. The Corporate Management Board and the Senior Management team are to be consulted on the plan. One of the key elements of the plan is the setting up of the Audit Committee and keeping up to date on internal controls.
12. Value for Money improvements is an area needing development and firm action to ensure that all necessary parts of the Council engage in the process. A survey of the public is to be carried out on their perception of whether they are receiving value for money.
13. A discussion took place on the standards the Council need to achieve under the new criteria and how they will be embedded into the Council's systems. The Council is comfortably reaching a standard 3 in most areas. It was pointed out that only a handful of authorities had attained a level 4 and that this level was intended to be challenging.

AUDIT COMMISSION REPORTS

14. The Committee has received a report on the process of receipt and action follow up on the Audit Commission reports to the Council. Heads of Service are to play a key role in this process and will liaise directly with the Audit Commission on reports in their service areas. Should recommendations not be actioned quickly, they will then be reported to the Audit Committee. Work will be carried out with the Audit Commission on an agreed limit of recommendations from past reports to ensure all recommendations are picked up, the results of which will be reported the Committee.

AUDIT COMMITTEE MEMBERSHIP

15. The Committee discussed membership of the Committee and the key element was the need for the Committee to be independent of the Executive and of the Scrutiny function. Members acknowledge that presently this was not being achieved, however it was recognised the Committee needed to remain as it is until 2007, but working towards achieving the CIPFA Guidance.

AUDIT PLAN 2006-07

16. The Committee has received a report outlining the processes used to develop the Annual Plan for 2006/07. The preparation of the Audit Strategy and Plan represents best practice and is an integral part of the Council's internal controls and procedures under the CPA Use of Resources and linked to the Statement of Internal Control, Use of Resources and the CIPFA Code of Practice
17. Audit services is broken down into key areas to give audit opinion on the Council's internal controls. The Committee discussed the various audits to be carried out and noted that 85% of Primary and Special Schools have not received an audit visit in the last four years. This backlog cannot be cleared within current resources, however Audit Services is working with schools to provide appropriate training to administrators. The Committee discussed the new DfES Finance Toolkit for schools and whether schools could carry out their own audits using it, but noted that this could prove to be an expensive option for schools.

ANTI MONEY LAUNDERING

18. The Committee have received a presentation on Anti Money Laundering procedures the Council is putting in place to allow staff to deal with money laundering issues. Penalties for laundering money ranged from fines of £5,000 to an unlimited sum of money and from six months to 14 years imprisonment. The main offences involved the concealing, arranging or acquisition of funds. Third party offences included the failure to disclose or to tipping off of the relevant body.
19. The main areas of concern are with suspicious payments, such as overpayments, duplicate/advance payments or large cash payments for land or property. Large payments (currently considered to be over £2,500) even when there was no suspicion are being logged. Although it was unlikely that organised crime would use Herefordshire Council for money laundering, procedures have been put in place to protect the Council and staff.

**A.C.R. CHAPPELL
CHAIRMAN
AUDIT COMMITTEE**

BACKGROUND PAPERS

- Agenda papers of the meeting of the Audit Committee held on 20th February and 7th April 2006.