

MINUTES of the meeting of Audit Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford on Friday, 7th April, 2006 at 10.00 a.m.

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

Councillors: Mrs. P.A. Andrews and T.M. James

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

22. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors: Mrs JP French, RI Matthews, RJ Phillips and Mrs SJ Robertson.

23. NAMED SUBSTITUTES (IF ANY)

Councillor H Bramer substituted for Councillor RJ Phillips and Councillor Ms G Powell substituted for Councillor Mrs SJ Robertson.

24. DECLARATIONS OF INTEREST

There were no declarations of interest made.

25. MINUTES

RESOLVED: That the minutes of the meeting held on 20th February, 2006 be approved as a correct record and signed by the Chairman.

26. USE OF RESOURCES IMPROVEMENT PLAN

The Director of Resources presented the report and advised that the Use of Resources Improvement Plan was still in draft format and was being adjusted to respond to the feed back on the CPA. Consultation on the plan was still to be carried out with the Corporate Management Board and the Senior Management team on the ability to deliver on requirements, however the draft and been produced in order to gain the comments of the Members before being presented to the management.

Financial reporting (score 3 out of 4) improvements:

- to ensure efficient and effective close down procedures of accounts prior to submission to auditors.
- to improve the concerns of the public on financial matters by providing a plain English summary leaflet explaining the figures.

Financial management (score 3 out of 4) improvements:

- to ensure key elements of the financial strategy are in place and held in one document.
- document to be approved approximately in June giving details of the budget

for the next year and which is to be joined up to performance management information.

Financial Standing (score 2 out of 4) improvements:

- base budget corrected for 2006/07.
- directorates to manage budgets to be at or below the approved budget for the year.
- action plans from each directorate to ensure spend is contained within the approved budget during the year.

Internal Control (score 2 out of 4) improvements:

It was noted that there were a number of separate issues around different elements and key to it was the setting up of the Audit Committee and keeping up to date on internal controls.

- Revision of Cabinet's terms of reference to include responsibility of risk management.
- Develop partnership risk management arrangements.
- Risk management training for Members and officers.

Value for Money improvements:

Noted that this area needed the most development and firm action to ensure that all necessary parts of the Council engage in the process. Additionally a survey with the public is being carried out to gauge their views as to whether they feel they are getting value for money.

A discussion took place on the standards the Council need to achieve. Members were advised that there were new criteria and set of standards that were a significant up grade on previous standards. The authority needs to be able to demonstrate to the Auditor that the new standards are embedded within the Council's systems to retain its overall Use of Resources score of 3. Reaching the next level would be a significant challenge. It was pointed out that only a handful of authorities had attained a level 4 score and that this level was intended to be challenging to the processes of an authority. Members went on to discuss procurement activity across the authority and best practice currently taking place.

RESOLVED: That the report and improvement plan be noted.

27. AUDIT COMMISSION REPORTS

The Principal Audit Manager presented the report on the arrangements to manage the process of receipt and action follow up on the Audit Commission reports to the Council. He stated that previously there had been no clear approach on how Audit Commission reports were to be dealt with, which needed to be rectified considering the impact the reports had on the Council's Statement of Internal Control. He added that directorate heads of service would play a key role in the process and would liaise directly with the Audit Commission on reports in their division. It was stated that should recommendations not be actioned quickly, they would become part of the reporting process to the Audit Committee. The Principal Audit Manager advised that this would help to improve on the use of resources score. The Audit Commission representative reiterated the need to consider the process that needs to take place should an action not be dealt with quickly. The Director of Resources stated that work was being carried out with the Audit Commission on an agreed list of

recommendations from past reports to ensure all recommendations were followed. The results of this work to be reported back to the Committee.

RESOLVED: That the process for dealing with all Audit Commission reports be adopted.

28. AUDIT COMMITTEE MEMBERSHIP

The Principal Audit Manager presented the report on the proposals for the membership of the Audit Committee. He stated that the Committee was developing and that it would take time before it would fully meet the needs of Members and comply with the Use of Resources criteria. He referred to the CIPFA guidance on membership of audit committees. He reminded Members of their request at the last meeting of the Committee to carry out comparison work on Audit Committees of other authorities and stated that it was clear that audit committees as such were still in their infancy and that Herefordshire was one of the authorities leading the way.

The Principal Audit Manager reminded Members that the key element regarding membership was that it must be independent of the Executive and of the Scrutiny function, and that presently this was not being achieved fully, however it was realised the need for the Committee to stay as it is until 2007, but working towards achieving the CIPFA Guidance. Concern was raised by Members that there appeared to be a third group being formed separate to that of the Executive and Scrutiny function. It was pointed out that this was a specialist form of scrutiny and that it might be that the Committee is chaired independently. It was more important that the Committee was operating effectively and that it would take the next 12 months to consolidate its position and understand its role.

RESOLVED: That the report be noted and used to facilitate future membership of the Audit Committee.

29. AUDIT PLAN 2006-07

The Principal Audit Manager presented the report outlining the process used to develop the Annual Plan for 2006/07. He added that the preparation of the Audit Strategy and Plan represented best practice and was an integral part of the Council's internal controls and procedures under the CPA Use of Resources. He advised that there were links to the Statement of Internal Control, Use of Resources and the CIPFA Code of Practice and stated how the strategy would:

- outline how the service would be provided;
- state how the assurance, as outlined in the Annual Statement of internal control would be demonstrated and would include how Audit Services would contribute to the review of:
 - i) the Council's corporate governance arrangements;
 - ii) risk management process; and
 - iii) key internal control systems;
- establish the resources required for delivery;
- set out the relative allocation of audit resources between assurance work and any fraud-related or consultancy work;
- reflect 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 the resources available would be identified and reported. The risk based plan would outline

assignments to be carried out and the broad resources required for delivery.

The Principal Audit Manager referred the Committee to paragraph five of Appendix two of the Audit Plan report and stated how the work of audit services was broken down into key areas to give audit opinion on the Council's internal controls. He added that the bullet pointed list showed clear links to the Council's Standing Orders and Financial Regulations. It was pointed out that there was inevitably more work than resources available and at present there was 75 days more work than there was resources available, therefore, one system, four school and two establishment audits had been removed. Members were also informed 85% of Primary and Special Schools had not received an audit visit in the last four years and that this backlog could not be cleared with current resources, however, Audit Services was working with LMS and Finance to give training to school administrators.

Members were informed that there was now a process in place to identify fundamental systems. The Principal Audit Manager advised that the plan reflected audit services involvement in supporting key corporate priorities such as performance management, project management, partnership risk management, LPSAs and LAAs and Herefordshire Connects. A discussion was had on the new DfES Finance Toolkit for schools and whether schools could carry out their own audits under the new proposals. It was noted that this could prove to be an expensive option for schools. Members discussed risk registers and were advised that audit services had linked the plan to the Corporate and Directorate Risk Registers.

RESOLVED: That the Audit Strategy and Plan for 2006/07 be adopted.

30. PROGRESS ON THE COUNCIL'S STATEMENT OF INTERNAL CONTROL

The Principal Audit Manager presented the report to update Members on the progress to the completion of the Council's Statement of Internal Control. He reminded Members that the CPA Use of Resources highlighted the criteria for judgement regarding the Statement of Internal Control. He added that the last management letter had indicated that the Council did not have its processes linked to the Statement of Internal Control. He reminded Members that at the last meeting of the Committee the processes required for the links to the Statement of Internal Control were approved. These processes were now being embedded into the work of the Council and were operating well through the action and improvement plans. The improvements resulting from the JAR use of resources and CPA reports are being put into progress and will be reported on to the Committee at the next meeting in June. Additionally the checklist, which links the key areas that make up the Statement of Internal Control and identifies any major gaps, will be reported on at the June meeting.

RESOLVED: That the progress report be noted.

31. ANTI MONEY LAUNDERING

The Audit Manager (Special Services) gave a power point presentation to the Committee and stated that the aim of the presentation was to make Members aware of the Anti-Money Laundering procedures the Council were putting in place for staff to deal with money laundering issues. He stated that it was about the converting of money from criminal activity or from terrorist's funds "dirty" money into "clean" money via the passing of cash through legitimate banking systems. He stated that if found to be laundering money the fine could range from £5,000 to an unlimited sum of money and from six months to 14 years imprisonment. The main offences would be the concealing, arranging or acquisition of funds. Third party offences would be

failure to disclose or to tipping off of the relevant body. He outlined the main agencies, which were the:

- Money Laundering Reporting Officer;
- National Criminal Intelligence Services;
- Assets Recovery Agency; and
- HM Revenues and Customs.

He stated that the main areas of concern were with suspicious payments, such as overpayment, duplicate/advance payments or large cash payments for land or property. Large payments (currently to be considered over £2,500), even when there was no suspicion, were being logged. The areas of the Council that were at risk were:

- Cashiers;
- Revenues and benefits staff;
- Treasury management;
- Property services;
- Contract officers; and
- Licensing staff.

He added that if staff were suspicious of a payment they had been advised to:

- Not alert the customer;
- Follow procedures;
- Store paperwork securely;
- Under bank.

Should a payment be suspicious, regardless of value, staff were to record details and inform their manager and the Money Laundering Reporting Officer (MLRO). Should the payment be over £10,000 cash, the MLRO would inform HM Revenues and Customs. Finally the Audit Manager (Special Services) advised that it was felt it was unlikely that organised crime would use Herefordshire Council for money laundering, however, procedures had been put in place to protect the authority and staff. He added that the Assistant Treasurer (Revenues and Benefits) had been given the role of Money Laundering Reporting Officer.

32. DATE OF NEXT MEETING

RESOLVED: That the date, time and venue of the next meeting is Friday, 30th June, 2006 at 10.00 am at the Council Chamber, Brockington, Hereford.

The meeting ended at 11.20 a.m.

CHAIRMAN