

MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE HELD IN THE  
COUNCIL CHAMBER, WALLFIELDS,  
PEGS LANE, HERTFORD ON TUESDAY  
27 JUNE, 2006 AT 2.30 PM

PRESENT: Councillor D Clark (Chairman).  
Councillors L O Haysey, J Hedley, M Tindale,  
J D Thorton J P Warren and M Wood.

ALSO IN ATTENDANCE:

Councillors A P Jackson  
Paul Dossett - Robson Rhodes } External Auditors  
Justin Collings – Robson Rhodes }

OFFICERS IN ATTENDANCE:

Anne Fisher	- Chief Executive
Mandy Barton	- Principal Accountant
Lorraine Blackburn	- Committee Secretary
Simon Drinkwater	- Director of Corporate Governance
Chris Gibson	- Principal Internal Auditor
Bob Hoskins	- Internal Auditor
Mick O'Connor	- Principal Accountant
Paul Mitchell	- Principal Accountant
Peter Searle	- Head of Internal Audit

67 CHAIRMAN'S ANNOUNCEMENTS

The Chairman welcomed all to the meeting and particularly representatives from Robson Rhodes. She commented that the development of the Audit Committee was a great step forward. She felt that it was about identifying areas of importance and reviewing ways the Council did things and making sure things happened. It was important to raise awareness and increase focus and understanding. Two further meetings would be added to the Council's calendar specifically to take a historical review of where the Council

ACTION

was and to look at future issues. Training of both officers and Members was an issue which needed development in order to carry out Audit responsibilities.

RECOMMENDED ITEMS

ACTION

**68 STATEMENT OF INTERNAL CONTROL**

**The Leader of the Council submitted a report concerning the 2005/06 Statement of Internal Control (SIC).**

**The Head of Internal Audit commented that the SIC was a corporate statutory document which the Council was required to produce alongside the Statement of Accounts. The SIC covered both financial and managerial controls and ensured that the Council's vision and priorities were being properly managed. It required the Council to review the adequacy of its governance arrangements, to develop an action plan to improve its arrangements and to communicate with stakeholders to improve the quality of its public services.**

**The Head of Internal Audit explained the key elements of the Assurance Framework appended to the report now submitted and referred to the System of Chief Officer Assurance Statements that had been introduced to support the SIC. It was noted that Corporate Management Team had reviewed the SIC on 6 June 2006. In terms of process, it was now for the Audit Committee to review the Statement independently prior to its submission to Council on 28 June, 2006 and its eventual publication.**

**Paul Dossett, Robson Rhodes commented that the Statement of Internal Control was a well put together document which should be viewed as a "living" document and reviewed on a quarterly basis. He commented that the Audit Committee was charged with governance and Members' views should be**

reflected in the document.

**A Member queried the pro-activity of Audit Officers in terms of establishing what was happening within the Council. The Head of Internal Audit assured Members that officers were kept aware with what was happening within the Council and were seen as the Council's "critical friend".**

**The Audit Committee supported the process for the production of the Council's 2005/06 Statement of Internal Control and recommended that this be approved and adopted by Council. Following its approval by Council that the Leader of the Council and Chief Executive sign the 2005/06 Statement of Internal Control as being a true statement.**

**The Audit Committee further agreed that it should receive three monthly progress reports made against implementing the action plan contained in the 2005/06 SIC and any updates from Chief Officer assurance statements**

**RECOMMENDED – that (A) Council support the process in place for the production of the Authority's 2005/06 Statement of Internal Control and that the Statement be adopted; and**

**(B) following approval by Council, the Leader and Chief Executive, on behalf of Members and Chief Officers of East Herts Council, sign the 2005/06 Statement of Internal Control as being a true statement.**

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**RESOLVED – that the Audit Committee receive three monthly reports on progress made against implementing the action plan contained in the 2005/06 Statement of Internal Control and updates arising from Chief Officer assurance statements.**

DCG

**69     STATEMENT OF ACCOUNTS 2005-2006**

**The Leader of the Council submitted a report setting out the statutory requirements for Members to approve the Statement of Accounts by 30 June 2006 deadline and its subsequent publication. It was noted that the Council's Statement of Control needed to be included within the Council's overall annual accounts. The purpose of the Statement was to set out the basis for recognition, measurement and disclosure of transactions and other events in the Accounts.**

**The Head of Accountancy explained the process in relation to the production of the Statement of Accounts which was technical in nature and explained the Council's overall financial position in relation to income, how money was spent and spends against each main service area.**

**The various sections within the Statement of Accounts were explained. It was noted that there had been no major change in the Council's Accounting Policies for 2005/06.**

**The Head of Accountancy explained that whilst the Statement was technical, Audit Committee could challenge action in a number of ways eg in relation to policy and how members dealt with management processes, ie the management of the Council's assets (which had recently been revalued). He commented on the need for the accounts to be transparent. It was noted that full Council would need to approve the accounts and that the accounts were showing a surplus of £346,000 which meant that £50,000 was available to support Council Tax.**

**The Head of Accountancy commented that given the technical nature of the Council's accounts, Members might wish to seek out training to increase their financial awareness.**

It was noted that monthly reports would be submitted to both the Corporate Management Team and the Executive.

Clarification was sought and provided in relation to the capital payments to Housing Associations and support for various affordable housing projects. Provision for bad debts was based on a specific provision.

Pension costs would be charged in 2006/07 and 2007/08. A contingent liability had also arisen in respect of claims submitted by an employee following the restructuring of the Council's senior management, the value of which could not be quantified at the Balance Sheet date. It was not anticipated that the claim would be material to the presentation of the Council's overall accounts.

The Council's 2005/06 year end creditor provisions included accruals in respect of pension and redundancy costs which had arisen subsequent to a Council decision to restructure its senior management.

The Chairman urged the need for greater financial disclosure in relation to financial regulations and reporting requirements / reporting costs. The Leader commented that the Council had learned from experience of the need to ensure that the Council had sufficient protection with regard to HR policies. This was already in process.

**RECOMMENDED** – that Members' comments be referred to Council regarding the Statement of Accounts for the financial year ended 31 March 2006 and the need for transparency of disclosure.

RESOLVED ITEMS

70 ROLE OF THE AUDIT COMMITTEE – TERMS OF REFERENCE

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The Director of Corporate Governance submitted a report outlining the functions and responsibilities of the Audit Committee. It was noted that legislation did not require the Council to have an Audit Committee. CIPFA guidance advised that an Audit Committee if established, should be separate from the Executive and scrutiny functions and must have a clear right of access to other committees / functions and full Council. According to CIPFA, Key Lines of Enquiry for Use of Resources, the Council could only achieve Level 4 where an Audit Committee had been constituted as a full committee of the Council.

The functions of Audit Committee in relation to internal and external audit were explained and in relation to strategies which controlled the activities of the Council including risk management matters, the statement of internal control, costs on corporate governance and standards.

The Director of Corporate Governance urged Members to think about their training needs, which would be highlighted further when Members considered the Audit Committee's future Work Programme. Risk Management and fraud management were areas where Members might need further training.

Reference was made to the Statement of Internal Control and the need for Members to satisfy themselves that this reflected the environment of East Herts and the internal audit strategy plan. The Director of Corporate Governance outlined what reports would be submitted to Audit Committee over the coming months.

The Chairman commented that she was pleased that an Audit Committee had been established. She felt that it would give the Council the independence it needed to

achieve Level 4 status and to review matters thoroughly.

RESOLVED – that the report be received.

71 INTERNAL AUDIT SERVICE – SEPTEMBER 2005 TO MARCH 2006

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The Leader of the Council submitted a report outlining internal audit activity from September 2005 to March 2006.

The Head of Internal Audit commented that this was the second outturn report for 2005/06 drawn up to provide feedback of activities between September 2005 to March 2006. The Internal Audit Section had modified its methodologies taking into account best audit practice and risk management processes within the Council. A number of areas required further enhancement but resources were limited and resources had been targeted at areas of greatest risk.

The Head of Internal Audit explained the background to resources and planning. He commented that in the 2005/06 Audit Plan there was a resource shortage of 108 days arising from an Audit Assistant returning to work on a part time basis and a further 78 days of unplanned additional assignments had compounded the resource problem. It was noted that there had been mixed successes in outsourcing several audit assignments to assist in the delivery of the 2005/06 Audit Plan. A further report on resource shortage would be submitted to a future meeting of Audit Committee.

Given the shortage of resources a number of medium and high priority reviews had been deferred into 2006/07 namely:

Medium priority:

- Other Cleansing

- Recycling
- Arrangements for Security

High Priority Review

- Grounds Maintenance
- Advance payments
- 2005/06 Payroll Core Financial System
- Homelessness, Allocations and Nominations
- Software and Hardware Licences

The Head of Internal Audit assured Members that work was in hand to address these deferred reviews.

It was noted that during 2005/06 focus had been maintained on critical projects and quarterly follow up arrangements had concentrated on control weaknesses previously identified by internal and external Audit.

Risk Management continued to make good progress and the processes had been integrated with the performance management system.

The Head of Internal Audit provided an update on the areas of enhancement within the framework of internal control that had been identified during the preparation of the 2004/05 Statement of Internal Control. He confirmed that throughout the year good progress had been made and that by 31 March 2006, 9 out of 12 “milestones” had been delivered.

The Head of Internal Audit explained internal audit’s role in relation to proactive and reactive fraud measures.



## ACTION

The Head of Internal Audit provided an update in relation to a number of internal and external recommendations and their current status. Updates were provided in relation to areas denoted as being a continuing risk. It was noted that many issues had already been resolved and would be taken off the list when next reported to Audit Committee.

In relation to internal and external recommendations in respect of Hartham Pool it was noted that with the exception of fraud awareness training and the upgrade to creditors computer software, the recommendations had been resolved.

In relation to Aspire's position, the Leader commented that the new Chief Executive might wish to review the position again.

Clarification was sought and provided in relation to the Council's reporting lines and protocols where breaches had occurred and in relation to the hierarchy of people in reporting such breaches.

The Chairman commented it would be helpful to receive a copy of the audit reviews electronically and to receive a brief summary at every meeting listing the reviews and a current update. She confirmed that fraud training for all members of scrutiny would be useful.

Clarification was sought and provided in relation to authorised signatories.

Members sought clarification where management had rejected a particular course of action. The External Auditor confirmed that where this happened, then it was up to Audit Committee to investigate the matter further which might require a report from the Head of Service explaining the basis of that rejection. Members felt that where issues were not resolved / approved by Members, then the reviews should indicate that they were "conditionally resolved" and highlighted as such.

ACTION

RESOLVED - that (A) the report be received.

(B) Members be provided with a summary of new internal audit reports at every meeting of the Audit Committee.

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The meeting closed at 3.35pm.

Chairman	.....
Date	.....

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