



Corporate Governance Committee

You are requested to attend a meeting of the Corporate Governance Committee to be held in The John Meikle Room, The Deane House, Belvedere Road, Taunton on 21 February 2005 at 08:00.

Agenda

- 1 Apologies
- 2 Minutes of the Corporate Governance Committee held on 26 July 2004 (enclosed)
- 3 Public Question Time
The period allowed for questions and answers will not exceed 15 minutes and each individual questioner will be restricted to speaking for a total of four minutes.
- 4 Statement of Accounts 2003/04 - Audit Commission SAS 610 Report
Report of Financial Services Manager (enclosed)
- 5 Internal Audit Plan 2005/06 - 2008/09
Report of the Internal Audit Manager (enclosed)
- 6 Internal Audit Services - Progress Report
Report of the Internal Audit Manager (enclosed)
- 7 Internal Audit Partnership
Report of the Head of Resources (enclosed)

Tonya Meers
Legal and Democratic Services Manager

05 January 2010

Members of the public are welcome to attend the meeting and listen to the discussions.

There is time set aside at the beginning of most meetings to allow the public to ask questions.

Speaking under “Public Question Time” is limited to 4 minutes per person in an overall period of 15 minutes. The Committee Administrator will keep a close watch on the time and the Chairman will be responsible for ensuring the time permitted does not overrun. The speaker will be allowed to address the Committee once only and will not be allowed to participate further in any debate.

If a member of the public wishes to address the Committee on any matter appearing on the agenda, the Chairman will normally permit this to occur when that item is reached and before the Councillors begin to debate the item.

This is more usual at meetings of the Council’s Planning Committee and details of the “rules” which apply at these meetings can be found in the leaflet “Having Your Say on Planning Applications”. A copy can be obtained free of charge from the Planning Reception Desk at The Deane House or by contacting the telephone number or e-mail address below.

If an item on the agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group.

These arrangements do not apply to exempt (confidential) items on the agenda where any members of the press or public present will be asked to leave the Committee Room.

Full Council, Executive, Committees and Task and Finish Review agendas, reports and minutes are available on our website: www.tauntondeane.gov.uk



Lift access to the John Meikle Room and the other Committee Rooms on the first floor of The Deane House, is available from the main ground floor entrance. Toilet facilities, with wheelchair access, are also available off the landing directly outside the Committee Rooms.



An induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter.

For further information about the meeting, please contact Democratic Services on 01823 356382 or email d.durham@tauntondeane.gov.uk

Corporate Governance Committee Members:-

- Councillor B Denington
- Councillor A Govier
- Councillor R Henley - Leader of the Council
- Councillor A Paul
- Councillor M Whitmarsh
- Councillor J Williams
- Councillor A Beaven
- Councillor A Wedderkopp
- Councillor N Wilson
- Councillor J O'Brien
- Councillor P Critchard

Corporate Governance Committee – 26 July 2004

Present: Councillor Williams (Chairman)
Councillors Denington, Hall, Lisgo, Smith and Whitmarsh

Officers: Miss S Adam (Head of Resources), Mr C Gunn (Audit Manager),
Mr P Carter (Financial Services Manager), Mr M Swallow (Group
Accountant Corporate Finance), Mr G P Dyke (Member Services
Manager) and Mrs D Durham (Member Services Officer)

(The Meeting commenced at 6.15pm).

6. Apologies/Substitutions

Apologies: Councillors Gill, Mrs Lewin-Harris and Prior-Sankey.
Substitutions: Councillor Mrs Bryant for Councillor Mrs Lewin-Harris.

7. Minutes

The minutes of the meeting held on 8 July 2004 were taken as read and signed.

8. Internal Audit Plan 2004/05 – 2006/07

Reported that to ensure that the limited resources of the Internal Audit Section were used to the best advantage of the Council a three year Strategic Audit Plan had been developed for the period 2004/05 – 2006/07.

The Plan set out the scope, conduct and timing of internal audit work for this three year period it would be reviewed each year and amended to reflect changing needs and priorities. Details were submitted of the range of work to be undertaken together with the various elements used in the preparation of the Plan.

Consideration was given to other areas that the Committee felt should be covered by Value for Money Audits. A number of operational services were identified such as Members Training, Deane Building Design and Valuation, but it was felt that these would be more appropriately dealt with through the proposed Service Reviews. It was felt, however, that document production was an area that would benefit from a Value For Money Audit.

RESOLVED that the three year Strategic Audit Plan 2004/05 – 2006/07 be agreed. Subject to the addition of the document production service as an area to be covered by a Value For Money audit.

9. Statement of Accounts 2003/04

Reported that legislation required that the Statement of Accounts had to be approved by a resolution of a nominated Committee. The Council's Constitution gave this responsibility to this Committee.

The 2003/04 Accounts were subject to audit, which was currently being undertaken by the Audit Commission. The Accounts presented were therefore complete, subject to the Auditors Opinion.

The format of the Statement of Accounts complied fully with current local authority accounting arrangements. A new requirement was for the inclusion of a Statement of System of Internal Control, which had been signed by the Leader of the Council and the Chief Executive.

Following the conclusion of Audit, this Committee would be informed of any significant amendments arising. If there were no significant amendments, there would be no further report on the 2003/04 Statement of Accounts.

RESOLVED that:-

- a) The Statement of Accounts for 2003/04 be agreed;
- b) The following determinations be made in respect of the year ended 31 March 2004:-
 1. Section 42(2)(g)
That £1,301,085 of expenditure for capital purposes, which was financed by grant, be capitalised.
 2. Section 56(i)
That basic and supplementary credit approvals of £1,201,670 (after adjustment for capital grants received) be treated as authority to charge to capital accounts expenditure of that amount.
 3. Section 60(2)
That £1,632,936 of useable capital receipts be applied to meet capital expenditure.
 4. Section 63(i)
That £408,971 be put aside from the revenue accounts in 2003/04 as a provision for credit liabilities.

(The meeting ended at 7.15pm)

TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE - 21 FEBRUARY 2005

REPORT OF THE FINANCIAL SERVICES MANAGER

This matter is the responsibility of Executive Councillor Williams (Leader of the Council)

STATEMENT OF ACCOUNTS 2003/04 – AUDIT COMMISSION SAS 610 REPORT

EXECUTIVE SUMMARY

To formally notify Members that following the conclusion of the audit of the 2003/04 Statement of Accounts the Auditor has no issues arising from the audit which he wishes to raise with the Council under the Statement of Auditing Standards No 610.

1 Purpose

- 1.1 To note the Auditors letter in respect of the Statement of Auditing Standards No 610 for the 2003/04 Statement of Accounts.

2 2003/04 Statement of Accounts

- 2.1 In July 2004 the Corporate Governance Committee approved the 2003/04 Annual Statement of Accounts. The Council's external auditor has recently concluded the audit of that year's Accounts and I am pleased to inform the Committee that the Auditor has issued an unqualified opinion on the Annual Accounts. This opinion will now be incorporated into the published final document.
- 2.2 In addition to issuing their opinion on the Accounts, the Auditor is also required, under the Statement of Auditing Standards No 610 (SAS610), to issue a report on matters arising from the audit and to report any such matters to "those charged with Governance". This could include:
- Any expected modifications to the auditors report,
 - Non-trifling mis-statements that have not been adjusted by Officers following the Audit,
 - Material weaknesses in accounting and internal control systems,
 - Qualitative aspects of accounting practice and financial reporting,
 - Matters required by other auditing standards,
 - Any other matters which the Auditor wishes to raise.
- 2.3 The Auditor has now sent his written confirmation that there are no matters that he wishes to raise with Members under SAS610. This marks the formal conclusion of the audit for the 2003/04 financial year.

3 Effect on Corporate Priorities

- 3.1 Being a corporate document detailing all of the financial activities of the Council the Statement of Accounts for 2003/04 and the subsequent audit impacts on all corporate priorities.

TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 21st FEBRUARY 2005

INTERNAL AUDIT PLAN 2005/06 – 2008/09

REPORT OF THE INTERNAL AUDIT MANAGER (this matter is the responsibility of Councillor Williams, the Leader of the Council)

EXECUTIVE SUMMARY

This Committee are requested to approve the Internal Audit Plan covering the period 2005/06 – 2008/09 (4 years). The plan has been developed to ensure that that audit resources can be utilised more effectively covering a broader range of Council services (both financial and non-financial).

1. Purpose of Report

- 1.1 To agree the Strategic Internal Audit Plan for the period 2005/06 to 2008/09.

2. Background

- 2.1 Internal Audit at Taunton Deane Borough Council operates in accordance with the auditing guidelines published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

- 2.2 The 2003 CIPFA guidelines refer to the need for a high level strategy that outlines how the Internal Audit service will be delivered and developed, and for there to be a risk based audit plan that sets out how the strategy is to implemented.

- 2.3 The Strategic Audit Plan sets out the scope, conduct and timing of internal audit work for the four-year period from 2005/06 to 2008/09. The Strategic Audit Plan is reviewed each year so that it can be amended to reflect changing priorities and meet the emerging needs of the Council.

3. Purpose of the Strategic Audit Plan and range of work undertaken

- 3.1 The purpose of the Strategic Audit Plan is to:
- identify all the areas of Council activity that require auditing over the four year period;
 - set out the relative allocation of resources between the work to obtain assurance on the functioning of the internal control systems

- 3.2 The Strategic Audit Plan has been drawn up to reflect the wide range of work undertaken by the Internal Audit Section, including:
- Audit of the Council's main financial systems on an annual basis;
 - Examination of the main departmental systems at least once within the three year cycle;
 - Provision of advice on corporate management activities such as Risk Management, Information Management, Corporate Governance and to scrutinise their development within the Council;
 - Undertaking a programme of specialist contract, computer audits and Value for Money Studies;
 - Completing special investigations to meet management requirements;
 - Provision of day to day advice to managers on financial and control issues;

4. Preparation of the Strategic Plan

- 4.1 Review of Key Council Activities** - The first stage in the strategic planning process is the review of the areas of Council activity that require auditing. The review of Council activities includes the examination of previous Strategic Audit Plans, the budget book, the Corporate Strategy and annual Performance Plan, various Council Strategies and Service Plans, Audit Commission management letters, Executive and Review Board reports and known developments.
- 4.2 Application of Risk Management** - The second stage in the planning process is to examine the areas identified above in order to assess the risks in each area of activity. A risk model has been devised which assesses each activity against the following categories: complexity of service/process; level of error; reliance on staff; financial materiality; the adequacy of internal control at last review; date last audited and inherent risk if service/process fails. Each category is scored, the greater risks receiving the higher scores and the total score for each activity determines the frequency of audit coverage. Audits are assigned to one of four frequency bandings: Very High (audited every year), High (every other year), Medium (no more than once every three years) and low (no more than once every four years). Some other areas of Council activity are scheduled for review every year, although they are not subject to the same risk assessment process. Examples of these areas include the provision of corporate advice and guidance, ongoing activities such as the support to the Corporate Governance Committee; follow up work and liaison with our External Auditors.

4.3 Review of Staff Resources - The final stage in the planning process is the review of available staff resources. The Strategic Audit Plan assumes full staffing of the Internal Audit team will be maintained for the three-year period of the plan. Staffing is assessed at the level necessary to ensure audit coverage of the key areas within the three-year cycle.

5. Summary of Resource Allocation for the Audit Plan

5.1 The table below summaries the resources allocated to the main audit areas in the four years 2005/06 to 2008/09. The Available Audit Days figure is the actual time available to perform audit work after making provision for administration, training, leave and sickness.

Year	2005/06	2006/07	2007/08	2008/09
Resources	Days	Days	Days	Days
Total days available	910	910	910	910
Staff overheads	241	241	241	241
Available Audit Days	669	669	669	669
Audit Area				
Main Financial Systems	180	175	175	175
Computer Audit	80	70	80	60
Contract Audit	35	40	35	40
Other Areas of Work	130	130	130	130
Fraud & Corruption Work	55	50	50	65
Departmental Systems	190	205	200	185
Total	670	670	670	670

5.2 Main Financial Systems –The Audit Commission places reliance on Internal Audit coverage of a programme of audits of key financial systems, and requires assurance that adequate testing of the systems has been undertaken.

The Computer Audit coverage includes resource provision for the Implementation of New Systems. This is to enable Internal Audit to comment on the procedures and controls associated with new systems, to provide input to the project teams or to comment on system specifications.

The proposed individual audits within the Strategic Audit Plan for the years 2005/2006 to 2008/2009 are detailed at Appendix 1. The Annual Audit Plan for 2005/2006 is the first column of the table in Appendix 1.

6. Recommendation

6.1 To agree the four-year Strategic Audit Plan 2005/06 – 2008/09.

Background Papers

There are no background papers.

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Appendix 1

Audit Description	2005/06 Days	2006/07 Days	2007/08 Days	2008/09 Days	Frequency Years
Main Financial Systems					
Payroll	15	15	15	15	1
Debtors	15	15	15	15	1
Creditors	15	15	15	15	1
Council Tax	15	15	15	15	1
National NonDomestic Rates	15	15	15	15	1
Housing Rents	15	15	15	15	1
Housing Benefits	30	30	30	30	1
Main Accounting	15	15	15	15	1
Cash / Bank	15	10	10	10	1
Treasury Management	10	10	10	10	1
Capital Accounts	10	10	10	10	1
Bank Reconciliation	10	10	10	10	1
	180	175	175	175	
Computer Audit					
IS Development	10		10		2
IS Operations		10			3
BS7799	10		10		2
Network	10		10		2
Strategy		10		10	2
Internet / Intranet		10		10	2
Software Licensing	10		10		2
System Implementations	40	40	40	40	1
	80	70	80	60	
Contract Audit					
Tendering / Partnering Arrangements	5	10	5	10	2
Final Account Audit	10	10	10	10	1
Current Contract Review (On site)	20	20	20	20	1
	35	40	35	40	
Other Areas of Work					
Corporate Governance	20	20	20	20	1
Data Protection	25	25	25	25	1
Freedom of Information	10	10	10	10	1
Risk Management	20	20	20	20	1
VFM Audits	20	20	20	20	1
Liaison with External Audit	5	5	5	5	1
General Financial Advice	10	10	10	10	1
Follow-Up Audits	20	20	20	20	1
	130	130	130	130	

Audit Description	2005/06 Days	2006/07 Days	2007/08 Days	2008/09 Days	Frequency Years
Fraud & Corruption Work					
Data Matching	10	10	10	10	1
HB Fraud Unit				10	3
Special Investigations	40	40	40	40	1
Register of Interests staff / members	5			5	3
	55	50	50	65	
Departmental Systems – Head of Development					
Tourism	15				4
Economic Development		15			4
Planning Policy			15		4
Planning Fees (Income)		5			4
Development Control				15	4
Building Control	15				4
Valuation & Estates (Commercial Rents)	5		5		2
Asset Management Plan		10			4
Emergency Planning (& Civil Contingencies Bill)			10		4
	35	30	30	15	
Departmental Systems – Head of Policy & Performance					
Community Safety	10				4
Corporate Policy & Performance		10			4
Grants (& Partnership Funding)			10		4
Procurement		10		10	2
CCTV				10	4
Corporate Complaints	10			10	3
	20	20	10	30	
Departmental Systems – Head of Environment & Leisure					
Crematorium & Cemeteries		10			3
Parks & Open Spaces		10			3
Leisure Services (Trust)	10		10		2
Refuse Collection	10		10		2
Recycling		10		10	2
Pest Control				10	4
Public Conveniences			10		4
Dog Wardens	10				4
Environmental Protection		10			4
Licensing				10	4
Food Safety		10			3
Health & Safety	10		10		2
Street Cleansing	10		10		2
Priory Depot Stores		10		10	2
Nursery			10		3
Community Services & Arts				10	4
	50	60	60	50	

Audit Description	2005/06 Days	2006/07 Days	2007/08 Days	2008/09 Days	Frequency Years
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Departmental Systems – Head of Housing

Improvement Grants (Renovation)		10		10	2
Deane Building Design Group	10				4
Home Improvement Agency	10		10		2
Homelessness		10		10	2
Housing Repairs	10	10	10	10	1
Housing Strategy			10		4
Estates Management	10				4
Housing Rent Arrears			10		3
Housing Elderly Services		10			4
Right to Buy (Council House Sales)		10			4
Service Charges			10		4
Rechargeables				10	4
	40	50	50	40	

Departmental Systems – Head of Corporate Services

Postal Remittances				5	4
Concessionary Bus Fares				5	4
Land Charges		10			3
Car Parks	15		15		2
Members Allowances / Hosp / Gifts	5		5		2
Car Loans		5		5	2
Central Telephones (including mobile phones)				10	4
Register of Electors				10	4
Personnel – Policy			10		4
Personnel – Recruitment and selection	10				4
Personnel – Training & Development				10	4
Council Mortgages		5			4
Leased Cars / Car Loans		5		5	2
Officers Allowances		5		5	2
Petty Cash Accounts		5			4
Insurances		10			4
VAT	10			10	3
Stock Certificates	5				4
Banking Services & Charges			5		4
Flexitime			5		4
Customer Services			10		4
	45	45	50	65	
Total	670	670	670	670	

TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 21st FEBRUARY 2005

INTERNAL AUDIT SERVICES – PROGRESS REPORT

REPORT OF THE INTERNAL AUDIT MANAGER (this matter is the responsibility of Councillor Williams, the Leader of the Council)

EXECUTIVE SUMMARY

In order to ensure that members of the Corporate Governance Committee can fulfil their roles and responsibilities as agreed at the last meeting of the Committee on 6th July, 2004 it was agreed that periodically the Internal Audit Manager would present progress reports on work undertaken by the Unit. This report highlights significant findings and recommendations that have occurred since the April 2004. Also included in this report is an update on management responses to Internal Audit Findings and the implementation of recommendations for audits completed during the 2003/04 financial year.

1. Purpose of Report

- 1.1 To provide members with an update on the progress made against agreed audit recommendations from 2003/04 and to present an update on the activities of the Internal Audit Unit for the period April 2004 to December 2004.

2. Summary of Agreed Actions 2003/04 Audits

There were 28 audit reviews completed during 2003/04 that resulted in 139 recommendations. Follow-up visits have been conducted for all the audits and 101 (73%) of the recommendations have been fully implemented. Summary details of progress against these recommendations is attached as Appendix A.

It is reassuring to note that in many cases the recommendations have been implemented and consequently the Council's Internal Control environment strengthened. In future all recommendations included within Internal Audit Reports will be risk rated and assigned a priority; High, Medium or Low and performance will be monitored to ensure that recommendations are implemented.

There are various reasons for some of the recommendations not being implemented these include required system enhancements that are programmed but have yet to be actioned, operational changes or lack of staff resource to address the area of weakness.

In a bid to improve future performance revised reporting arrangements have been agreed with the Heads of Service and are in the process of being implemented, these are included at Appendix C. The introduction of these new arrangements and the risk rating of recommendations should lead to an increase in the response to audit recommendations which will continue to be monitored by management.

3. Work undertaken by the Audit Section since April 2004

Included at appendix B is a detailed list of the audits completed from April 2004 to December 2004 including any **significant** findings or recommendations.

4. Performance against the 2004/05 Plan

The Internal Audit Team is currently operating with a part-time vacancy due to the postholder being seconded for 12 months to the Policy & Performance function.

5. Recommendation

The Committee should note the content of this report.

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Summary of progress made against 2003/04 recommendations

Appendix A

Audit Area	No. of recommendations	No. actioned	No. outstanding	Comments
National Non-Domestic Rates	3	1	2	Staffing issues (separation of duties and procedure guides)
Cash Receipting	12	8	4	Future of cash office
Council Tax	3	3	0	
Bank Reconciliation	8	5	3	Awaiting conclusion of Control Team Review
Capital Charges	4	4	0	New system implemented
Crematorium / Cemeteries	3	3	0	
Main Accounting	4	3	1	Being actioned as part of FMS replacement project
Creditors	5	4	1	Followed up as part of 2004/05 audit
Taunton Deane Debts	14	5	9	System changes required + Control Team Review
Housing Benefits	14	14	0	
Customer Liaison List	7	4	3	System enhancements required
Treasury Management	4	4	0	
Priory Depot Stores	13	9	4	Staffing issues
Housing Rent Arrears	1	1	0	
Nominal Role	1	1	0	
Building Control Income	1	1	0	
Planning Fees Income	3	2	1	System enhancements required
Concessionary Travel	2	2	0	
Periodic Income	5	1	4	Staffing issues + system enhancements
Land Charges	3	3	0	
Postal Remittances	1	1	0	
Officers Allowances, Gifts & Hospitality	4	1	3	Followed up as part of 2004/05 audit

Members Allowances	3	1	2	Followed up as part of 2004/05 audit
Lease Cars	2	2	0	
Housing Renovation Grants	9	9	0	
Housing Repairs	1	1	0	
Car Park Income	6	5	1	Followed up as part of 2004/05 audit
Homelessness	3	3	0	
Totals	139	101	38	

Sheltered Housing : 😊

The review focused on levels of income from meals, guest room and meeting Hall booking, TV licences and payments for cleaning. A number of Sheltered Schemes were visited and Managers were interviewed and testing also undertaken to ensure that amenity funds, log books and the use of controlled stationary could be accounted for. The review did not identify any significant findings with recommendations made concerned administrative issues.

Council Tax : 😐

The review concentrated on the testing of the Council Tax System examining the overall controls in place and focusing on the findings of the risk analysis undertaken prior to the start of the review. Additional system testing was undertaken this year concentrating on the work of staff within the Customer Services Team. The review identified issues around separation of duties, which are being worked on. In addition, a backlog in the processing of Council Tax post has lead to delays in the application of discounts on Council Tax accounts. The Collection Manager has introduced new software and procedures, which should enable then to process post more quickly in future.

National Non-Domestic Rates : 😐

The review concentrated on the testing of the Non-Domestic Rating System examining the overall controls in place and focusing on the findings of the risk analysis undertaken prior to the start of the review. Due to the small size of the section division of duties between officers responsible for administering collection, debt creation and reconciliation of the property database is not possible to achieve. There is also a lack of procedural guides in place covering many aspects of the NNDR processes, guides are in the process of being produced by the Senior NNDR Officer.

Bank Reconciliation : 😐

The reconciliation of the Council's various bank accounts is a fundamental control measure. Previous audits have identified delays in the posting and issue of cheques to the Bank Rec system and the high level of special cheques which are costly to produce and quite often not necessary. Managers have once again been reminded that every effort should be made to reduce their reliance on special cheques in future.

Review of Control Function : 😊

A review was completed of the control functions undertaken by staff within the Head of Resources area of responsibility with a view to formalising control arrangements. The review examined roles and responsibilities, looked at the adequacy of the Council's current financial controls and sought to streamline the process and suggest improvements. The outcome of the review has allowed the Head of Resources to restructure elements of her services to work more efficiently and effectively.

Sale of Council Houses : 😊

The Internal Audit Unit completes a 6 monthly review of the sale of council houses to ensure that all the proceeds from the sale of properties sold under the 'Right to buy' scheme are correctly processed, housing benefit suppressed where paid, and the housing rent debit stopped. There were no material weaknesses identified during the audit.

Treasury Management : 😊

The area of Treasury Management (due to the nature and value of the transactions) is one of the greatest financial risks to the Council. The robustness and integrity of the procedures and controls in place is of paramount importance. The review focussed on the testing of individual transactions and on the controls in place. No material weaknesses were identified during the audit.

Sports Centres : 😊

Prior to the commencement of the Leisure Trust arrangements a brief review was undertaken of the control environments operating within all of the leisure facilities operated by Taunton Deane. The review identified numerous operational and procedural matters that have been reported to Tone Leisure. These will be considered and the recommendations implemented where possible.

Cash Receipting : 😊

The review concentrated on the testing of the Council's cash receipting arrangements within the Deane House and at the Wellington Community Office. The controls in place were examined with the review focussing in the physical security arrangements in place safeguarding monies paid to the Council. The only significant weakness was identified in that the combination code for the main safe within the cash office had not been changed recently.

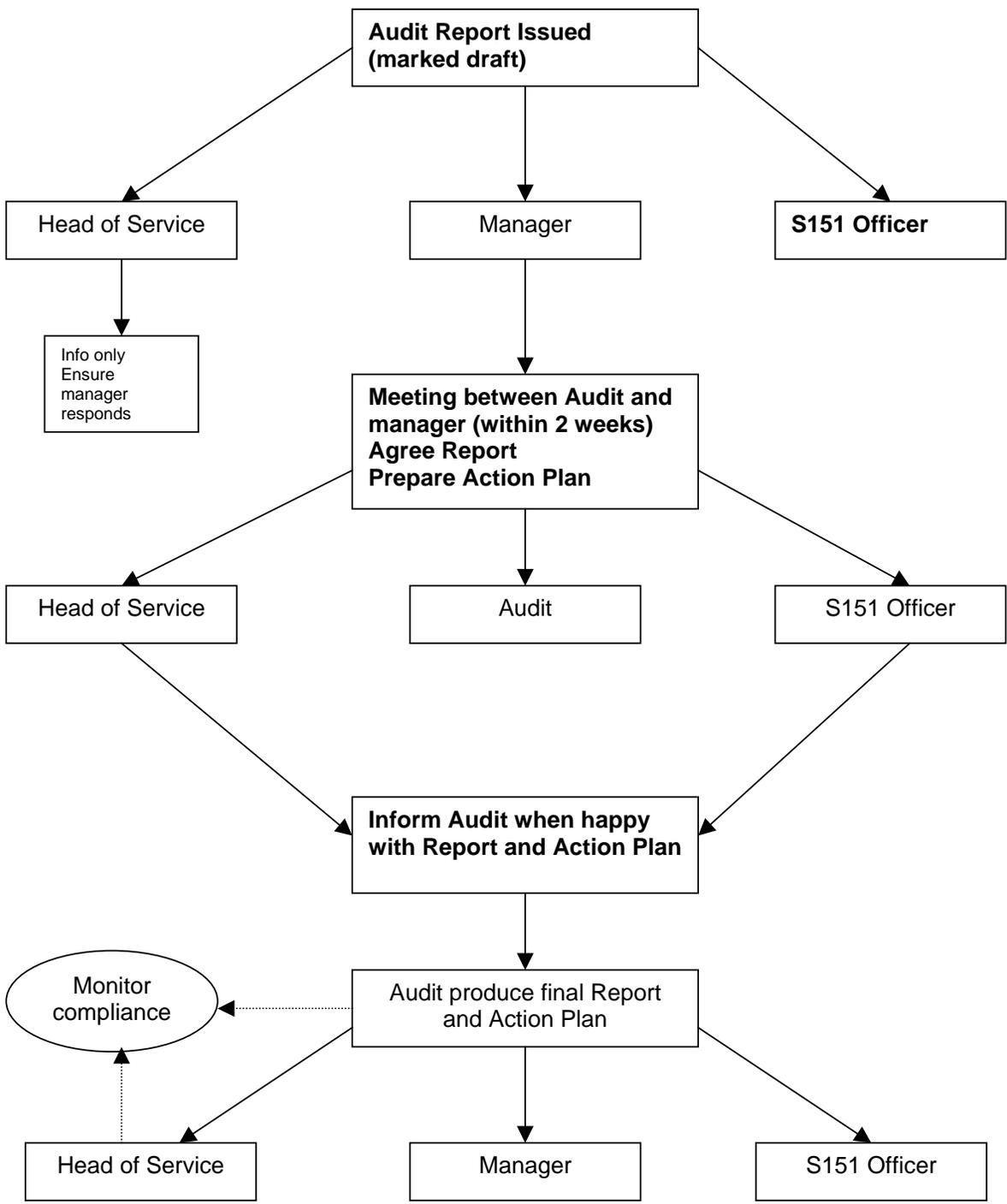
Capital Charges : 😊

The Capital Charges System provides the accounting entries for the Council's fixed assets, this system is recognised as high risk due to the value of the transactions that pass through and if calculated incorrectly the material misstatement that could occur in the Council's accounts. From testing undertaken it is our opinion that the Capital Charges System operates within a satisfactory system of internal controls and no material weaknesses were identified.

Main Accounting : 😊

In undertaking this review the Council's General Ledger and Budgetary Control system was tested to validate the creation, monitoring and reporting of the Council's budget and related spend. The Council's current FIS (Financial information System) does not easily provide management information, the information that is produced needs careful interpretation and it is questionable whether the information is sufficient to support budget monitoring or management decision-making processes. The use of control accounts although improving needs progressing to ensure more regular reconciliation of control accounts with the Council's FIS.

ISSUE AND DISTRIBUTION OF AUDIT REPORTS



TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 21st FEBRUARY 2005

REPORT OF THE HEAD OF RESOURCES

This matter is the responsibility of Councillor Williams (Leader of the Council)

INTERNAL AUDIT PARTNERSHIP

EXECUTIVE SUMMARY

Three authorities (Taunton Deane Borough Council, South Somerset District Council, and Mendip District Council) are proposing to create a Partnership to operate their Internal Audit Services. This brings significant benefits to all Partners, in terms of quality, sustainability and resources. The Partnership will be formed using the Joint Committee model (outlined in s101 LGA 1972).

Provided that all necessary steps can be concluded on time it is proposed that Taunton Deane and South Somerset establish an internal audit partnership effective from 1st April, 2005. It is further proposed that Mendip join the partnership, on the expiration of their current contract with Capita, on 1st July, 2005.

This report sets out the principles of how the Partnership will operate for consideration by the Corporate Governance Committee, prior to formal approval by the Executive in March 2005.

1. Purpose of Report

- 1.1 To inform Members, and seek approval for, a proposed Internal Audit Partnership between Taunton Deane Borough Council (TDBC), South Somerset District Council (SSDC), and Mendip District Council (MDC).

2. Background

- 2.1 All local authorities are required, by the Local Government Act 1972 and the Accounts and Audit Regulations 2003, to provide an internal audit function. This can be achieved in a number of ways including by in-house provision, outsourcing or partnership.
- 2.2 Officers from all three Councils have been in discussion for some time regarding the potential for partnership working. Since July 2004 a number of "joint audits" have been undertaken by TDBC and SSDC. This has helped build relationships between the two audit teams, and more importantly, helped staff recognise that there are opportunities to learn from each other.
- 2.3 In addition to joint working, a significant amount of research has been carried out – looking at other successful local government internal audit partnership arrangements. TDBC and SSDC visited the North Yorkshire Partnership in November 2004 and discussed the benefits of partnership with one Chief Finance Officer and the Partnership's Audit Manager. This visit proved useful – not only in confirming the positives of partnership working, but also in highlighting areas where their set-up could be improved even further.
- 2.4 The conclusion of both the joint audit working, and the research is that the three authorities should proceed towards a formal internal audit partnership.

- 2.5 Provided that all necessary steps can be concluded on time it is proposed that TDBC and SSDC establish an internal audit partnership (South West Audit Partnership (SWAP)) effective from 1st April, 2005. It is further proposed that Mendip join the partnership, on the expiration of their current contract with Capita, on 1st July, 2005.

3. Motivation for Change

- 3.1 A number of factors have recently come together that make the setting up of a partnership possible. These include:

- A wider recognition that partnerships, for particular services, can provide the most cost effective and viable solution.
- The difficulty, nationally, in recruiting experienced internal auditors.
- The difficulty in small Councils affording specialist audit skills, such as IT and Contract Auditors.
- The decision by Mendip District Council to bring their internal audit service in-house, and to seek a partner to help in the delivery of the service. Capita currently provides the service under a contract that runs out at the end of June 2005.

- 3.2 The Efficiencies Agenda clearly sets out the Government's vision for local authorities to be working together to provide more efficient and effective services. Currently all authorities in Somerset are individually providing an internal audit service – this cannot be efficient use of limited taxpayers resources. The current structure across Somerset also has inherent problems with communication, speed of service delivery, capacity, coverage, and motivation of staff who are stuck in small teams with little room for personal development.

- 3.3 The creation of South West Audit Partnership will provide the three founder authorities with a better quality service for the same resources. Financial benefits will materialise as new partners join the organisation over the next five years. Indeed, the longer-term benefits could be shared between all public sector organisations in the area, not just local authorities.

- 3.4 It is recognised that some of the staff transferring to SWAP may be resistant to change, and therefore a strategy has been put in place to motivate commitment to change over the coming months. During the transition phase some staff may continue to feel unsettled and will be kept fully informed of events. Staff will be in a position to add real value to the planning process and will be able to help identify risk, pitfalls and barriers to implementation.

4. The Vision

- 4.1 The aim of the Partnership will be to provide high quality, cost effective internal audit services to its customers. By forming the Partnership, the following benefits will accrue:-

- The ability to share resources.
- The ability to recruit specialist skills.
- The capacity to improve the quality of internal auditing.
- Potential cost benefits in the future as the Partnership grows.

5. The Legal Framework

- 5.1 A number of alternative Partnership models exist, the most common being:-

Partnership Board

- Designed to fulfil a specific contractual need.

Joint Committee

- A formal local authority committee constructed under s101 of the Local Government Act 1972 (or may, where appropriate, be joint executive arrangements under the Local Government Act 2000).
- Policy determined by local authority Members/Officers for the purpose determined/delegated by the principal authorities. Managed by designated officers.

Non-Profit Distributing Company (IPS or Company limited by guarantee)

- A separate entity from participating local authorities – can be established under various Acts.
- Composition and purpose set out in the Memorandum and Articles of Association.

For Profit Entity (Company limited by shares)

- As for not-for-profit but dividends payable.
- The normal preferred structure if profits are a key motivator and/or private sector involved.

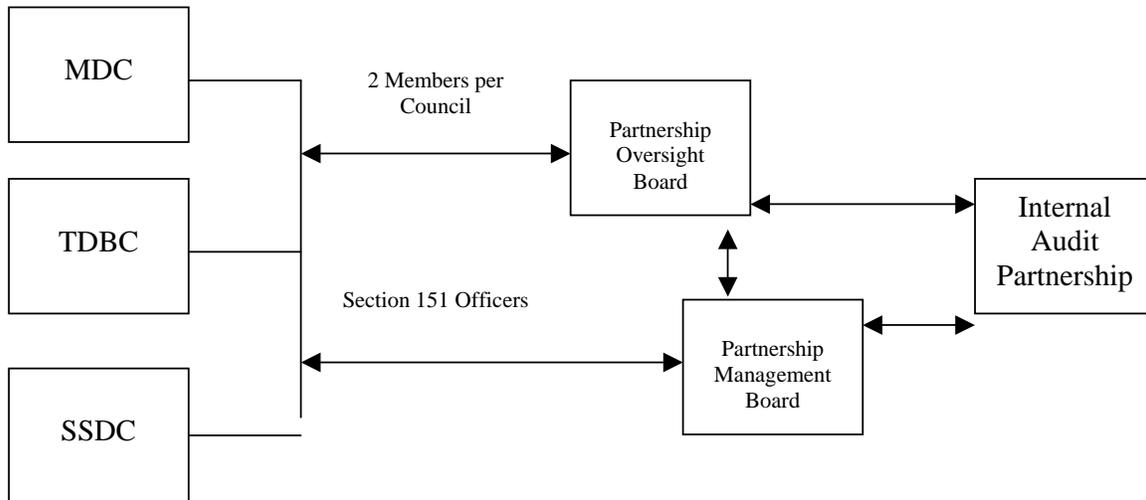
5.2 The recommended model is to establish a Joint Committee. This has the following advantages:-

- The arrangement is well understood, has been tried and tested, and is relatively easy to establish.
- Partner Authorities have influence over policy and performance through the Oversight and Management Boards.
- Staff remain local government employees.
- The focus is on the provision of quality services and not for profit.
- Can be easily expanded to accommodate other public sector partners.

6. Governance Arrangements

6.1 Precise details of the management arrangements for the Partnership are being prepared and will form part of the formal agreement (which is being worked on by legal representatives for all Partners). If Members agree to the formation of the Partnership, then a Board of members will be formed to oversee the partnership – comprising two Members from each Partner. In addition, a senior management Panel, comprising the S151 Officers from each Partner will be formed to oversee the operational activities.

6.2 The overall governance arrangements are likely to be:



7 Management and Operating Arrangements

7.1 A project team, including legal, financial, HR and IT expertise have been working on the operational arrangements for some months now. Some of the more detailed issues are still under discussion, and will be developed over the coming weeks.

7.2 It is not essential that these are finalised prior to transfer providing the following **broad principles** are agreed:-

- The Partnership will be established under a legal agreement that all parties will sign. The agreement will specify the basis on which each partner provides resources and the basis on which services will be provided to the partnership.
- Each partner will define its own internal audit needs, including provision of a tactical and strategic audit plan. This work may or may not be done by the partnership audit team.
- Each partner will have an equal say (or vote) in the partnership, regardless of size.
- Based on the defined audit needs, the partnership will calculate the total cost of audit provision and define the partnership staffing needs.
- The Partnership Management Board will have the final say on the total cost of the audit service provided to each Partner, and on staffing levels (including the initial determination of staffing needs and any additional increases).
- The services of SWAP will be provided by a single audit team with officers based at the three partner Councils' main sites, or any other site a partner may stipulate.
- The powers of the Partnership Board, and the Partnership Management Board will be specified in the partnership legal agreement. Each partner will specify, within their Financial Regulations, the scope and extent of internal audit authority of the Partnership Audit Team.
- The partnership will be formed under section 101 of the Local Government Act 1972 and will therefore be exempt from EU procurement rules.

7.3 The management structure is still being finalised, but all Partners agree that one post of Head of Internal Audit should lead the Partnership Team. Within

the three existing internal audit teams, there is no obvious candidate for this role.

- 7.4 The current Group Manager (Business Support) at SSDC is a qualified internal auditor with more than 20 years experience – and it is proposed that he should transfer full-time to the Partnership in the role of Head of Internal Audit. He is an excellent candidate for this role - a view fully supported by the three Partner organisations s151 Officers. The main duties of this post will be:-
- To prepare audit plans for each Council.
 - To manage the audit team and its resources.
 - To develop the business plan and grow the Partnership.

8 Employee Issues

- 8.1 The Chief Personnel Officers in each authority are currently working on the detail of this proposal. In very simple terms, the following summarises the key issues around employees:-

- 8.2 Communication and consultation.
Staff have been, and will continue to be, consulted throughout the process. Regular feedback sessions and joint team building days have occurred and more are planned. Unions and staff-side have also been kept informed of the proposals and have now been formally consulted.

- 8.3 TUPE transfer
The partnership will be established on the basis of one hosting Authority (to be decided – but likely to be SSDC) to act as employer, for ‘pay and rations’, for the partnership. This will result in staff from two of the Councils being subject to TUPE transfer to the hosting Council.

- 8.4 Standardisation of terms and conditions
Where possible and practical the principle of ‘best of the best’ will be adopted. For instance, if one Council has a more flexible flexi-time scheme, then that would be adopted for all staff. Detailed agreement has yet to be reached on this. It may be that, due to the timescales involved, that staff will transfer on existing terms and conditions.

- 8.5 Membership of existing pension schemes to continue.
By adopting the hosting Council model, all staff will remain local government employees and will continue to be included in the Somerset County Council pension scheme.

9. Financial Arrangements

- 9.1 The Financial Services Managers in each authority are currently working on the detailed arrangements required in order to create this Partnership arrangement.
- 9.2 The broad principle that the cost of internal audit should not increase because of the creation of the Partnership is accepted.
- 9.3 The intention is for the Partnership to cost TDBC no more than current annual costs over a five-year period. This will require a contribution from balances of £20,000 to support the Partnership initially, but will be repaid over 5 years. It is hoped that this can be found within existing approved budgets (potentially from the end of financial year underspend).

10 Conclusions and Next Steps

- 10.1 There are clear advantages to entering into an Internal Audit Partnership, including quality, sustainability and resource issues. Experience suggests that Partnerships are often difficult to establish, but once they are, the benefits can be quickly realised.
- 10.2 Each Partner authority will formally recommend the formation of SWAP to their respective organisations during March 2005. At TDBC, this report is for your consideration on 21st February 2005, with final approval requested of the Executive on 9 March 2005.
- 10.3 Meantime, work continues on the detail of the legal agreement, the HR, Finance and IT issues. The project is being managed using the broad principles of PRINCE2.
- 10.4 The Chief Finance Officers will take responsibility for ensuring the detailed business plan, and measures of success are developed, and that the necessary corporate governance arrangements are put in place at each Partner authority.

11 Recommendations

- 11.1 The Corporate Governance Committee are requested to recommend to the Executive that:-

1/ An Internal Audit Partnership (initially between TDBC, SSDC, and MDC) is established under s101 of the Local Government Act 1972 (Joint Committee).

2/ The Internal Audit Partnership will commence on 4 April 2005 between TDBC and SSDC, with MDC joining on 1 July 2005.

3/ The initial contribution of £20,000 is found from existing approved budgets (year end underspend), and is repaid over five years.

4/ The final agreement of the Partnership Business Plan, and host authority arrangements, is delegated to the Head of Resources (subject to the Partnership demonstrating a break-even position within 5 years).

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