

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 13 July 2005 at 18:15.

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### **Agenda**

- 1 Apologies
- 2 Minutes  
Minutes of the Corporate Governance Committee held on 21 February 2005 (attached)
- 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 Audit and Inspection Plan 2005/2006  
Report of the Audit Commission (attached)
- 5 Statement of Accounts 2004/2005  
Report of the Financial Services Manager (attached - the accounts themselves will be circulated in a separate booklet)
- 6 Internal Audit Services - Annual Report 2004/2005  
(Report of the Internal Audit Manager (attached))
- 7 Internal Audit Services - Progress Report  
Report of the Internal Audit Manager (attached)

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](http://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](mailto: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 – 21 February 2005**

Present: Councillor Williams (Chairman)  
Councillors Denington, Hall, Mrs Lewin-Harris, Meikle and  
Prior-Sankey

Officers: Ms S Adam (Head of Resources), Mr C Gunn (Audit Manager),  
Mr P Carter (Financial Services Manager) and Mrs D Durham  
(Member Services Officer)

(The meeting commenced at 8.05am).

### 10. Apologies

Councillors Lisgo, Mrs Smith and Mrs Whitmarsh

### 11. Minutes

The minutes of the meeting held on 26 July 2004 were taken as read and signed.

### 12. Statement of Accounts 2003/2004 – Audit Commission SAS 610 Report

Reference Minute No. 9/2004, reported that the Annual Statement of Accounts 2003/2004 had been audited by the Council's external auditor, who had recently issued an unqualified opinion on the Annual Accounts.

In addition to issuing its opinion, the auditor was also required under the Statement of Auditing Standards No. 610, to issue a report on matters that had arisen from the audit. Such matters included:-

- Any expected modifications to the auditors report;
- Material weaknesses in accounting and internal control systems; and
- Qualitative aspects of accounting practice and financial reporting.

The auditor had now confirmed that there were no matters that needed to be raised with Members and this, therefore, marked the formal conclusion of the audit for the 2003/2004 financial year.

RESOLVED that the report be noted.

### 13. Internal Audit Plan 2005/2006 – 2008/2009

Considered report previously circulated, which provided details of a proposed Strategic Internal Audit Plan for the period 2005/2006 to 2008/2009.

The Plan set out the scope, conduct and timing of internal audit work over the next four financial years. It would be reviewed each year and amended where necessary to reflect changing priorities and to meet the emerging needs of the Council.

The purpose of the Plan was to:-

- Identify all the areas of Council activity that required auditing over the four year period; and
- Set out the relative allocation of resources between the work to obtain assurance on the functioning of the internal control systems.

In preparing the Strategic Plan, a review of Council activities that required auditing had been undertaken, together with an assessment of the risks in each area of activity. Details of these were submitted.

The final stage in the process of producing the plan was the review of available staff resources and a table showing the resources to be allocated to the main audit areas over the next four years was presented.

During the discussion of this item, consideration was given to the completion of special investigations to meet management requirements. It was explained that the Plan would be regularly monitored which would enable Audit to identify high priority items. Although the main system audits had to be completed annually, other service based areas could be changed.

Concern was also expressed that the allocation of resources for Freedom of Information was only ten days. It was made clear however that Audit's role with this topic was peripheral and that a working party of six officers already dealt with any issues that arose from meeting the requirements of the Freedom of Information Act.

#### 14. Internal Audit Services – Progress Report

Considered report previously circulated, which provided members with an update on the progress made against agreed audit recommendations from 2003/2004. The report also detailed the activities of the Internal Audit Unit for the period April 2004 to December 2004.

The 28 audit reviews completed during 2003/04 had resulted in 139 recommendations. Follow-up visits had been conducted for all the audits and 73% of the recommendations had been fully implemented which had strengthened the Council's Internal Control environment.

In future recommendations included in the Internal Audit Reports would be risk rated and assigned a priority. These would then be monitored to ensure that all recommendations were implemented.

Revised reporting arrangements had been agreed with the Heads of Service

and were being implemented which, along with the risk rating of recommendations would lead to an increase in the response to audit recommendations.

Although the Internal Audit Team was currently operating with a part-time vacancy, the hours would be 'made up' by a university student working full-time during the Easter and Summer holidays.

During discussion of this item, concern was expressed about the ability of people to pay money to the Council following the closure of Post Offices and the impending closure of the Collection Office at The Deane House. Once the Collection Office closed in three months time, there would be a cash paying in machine available and payment by direct debit was being strongly encouraged.

The payment of invoices was also discussed and in particular the advantages of paying invoices early to attract discounts. Although Managers had always been encouraged to take advantage of any discounts, the new Financial Management System would streamline procedures even further with more frequent cheque runs.

The Committee agreed that they should be kept informed of recommendations made following an Audit and why any had not been implemented.

The cost and length of publications and reports was a further concern. It was felt that there was little control over what Taunton Deane Borough Council published. However, it was noted that a corporate audit of publications was being undertaken and it was agreed that the Committee should be updated as to when the Communication Strategy would be ready. The length of reports was currently being considered as part of the overview and scrutiny review.

RESOLVED that the report be noted.

#### 15. Internal Audit Partnership

Considered report previously circulated, concerning the proposed establishment of an Internal Audit Partnership between Taunton Deane Borough Council (TDBC), South Somerset District Council (SSDC) and Mendip District Council (MDC).

The provision of an internal audit function was required under the Local Government Act 1972 and the Accounts and Audit Regulations 2003. This could be achieved in a number of ways including in-house provision, outsourcing or partnership.

The three Councils had been in discussion for some time regarding the potential for partnership working and since July 2004 a number of 'joint audits' had been undertaken by TDBC and SSDC. Relationships had been built

between the two audit teams and there was a recognition that there were opportunities to learn from each other.

A considerable amount of research had been carried out, including a visit to an existing partnership, which confirmed the positives of partnership working.

Reported that the conclusion of both the joint audit working and the research undertaken was that the three authorities should proceed towards a formal internal partnership.

In recent months, a number of factors had come together which made the setting up of a partnership possible in the short term. Details of these factors were submitted.

Provided that all the necessary steps could be concluded on time, it was proposed that TDBC and SSDC established an Internal Audit Partnership (South West Audit Partnership or "SWAP") effective from 1 April 2005. It was further proposed that MDC joined the partnership on 1 July 2005, once its current contract for the provision of audit services by Capita expired.

The aim of the Partnership would be to provide high quality, cost effective audit services to its customers, however, clear boundaries would need to be set to ensure confidentiality. The benefits of the Partnership would include the sharing of resources, the recruitment of specialist skills, the improvement of quality of internal auditing and future potential cost benefits.

Reported on the legal framework and the proposed governance arrangements for the proposed partnership. It was suggested that the Joint Committee Partnership Model should be accepted, with an Oversight Board, comprising two members from each Council, to oversee the partnership and a Management Board, comprising the Section 151 Officers, to oversee the operational activities.

Further reported on the likely management and operating arrangements, subject to a number of broad principles being agreed, issues relating to employees and the financial arrangements.

With regard to the latter, noted that the intention was for the Partnership to cost TDBC no more than current annual costs over a five year period. This would require a contribution from balances of £20,000 to support the Partnership initially, but would be repaid over five years. It was hoped this amount could be found within existing approved budgets.

There were clear advantages to entering into an Internal Audit Partnership including quality, sustainability and resource issues. Although partnerships could be difficult to establish, experience suggested that the benefits could be quickly realised.

RESOLVED that it be recommend to the Executive that:-

- (1) An Internal Audit Partnership (initially between TDBC, SSDC and MDC) be established under Section 101 of the Local Government Act 1972 (Joint Committee);
- (2) The Internal Audit Partnership be commenced on 4 April 2005 between TDBC and SSDC, with MDC joining on 1 July 2005;
- (3) The initial contribution of £20,000 be found from existing approved budgets (year end underspend), and be repaid over five years;
- (4) The final agreement of the Partnership Business Plan, and host authority arrangements, be delegated to the Head of Resources (subject to the Partnership demonstrating a break-even position within five years).

(The meeting ended at 9.30am).



# Audit and Inspection Plan

## Taunton Deane Borough Council

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- Appendix 2 – Audit and inspection fee
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- Appendix 4 – The Audit Commission's requirements in respect of independence and objectivity

<b>Reference:</b>	TA006 Audit and Inspection Plan
<b>Date:</b>	April 2005

## Introduction

This plan sets out the audit work that we propose to undertake in 2005/06. The plan has been drawn up from our risk-based approach to audit planning and reflects:

- the impact of the new Code of Audit Practice which comes into effect in April 2005;
- your local risks and improvement priorities;
- current national risks relevant to your local circumstances; and
- the impact of International Standards on Auditing (UK and Ireland) (ISAs).

Your relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

## Our responsibilities

In carrying out our audit and inspection duties we have to comply with the statutory requirements governing them, and in particular:

- the Audit Commission Act 1998 and the Code of Audit Practice (the Code) with regard to audit; and
- the Local Government Act 1999 with regard to best value inspection and audit.

The Code has been revised with effect from 1 April 2005. The key changes include:

- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
- a clearer focus on overall financial and performance management arrangements.

Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- ensuring compliance with the general duty of best value, where applicable;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the audited body's affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual Statement on Internal Control.

Further details for the new Code are set out in Appendix 1.

## The fee

The total fee estimate for the audit and inspection work planned for 2005/06 is £78,824 (2004/05: £79,993). The fee is based on the Audit Commission's fee guidance contained within its operational plan and reflects the Council's Comprehensive Performance Assessment (CPA) overall score of 'excellent'.

Further details are provided in Appendix 2 including the assumptions made when determining the fee.

Changes to the plan and the fee may be necessary if there are any changes to our risk assessment or to the assumptions referred to above during the course of the audit. We will formally advise you of any changes if this is the case.

## Summary of key audit and inspection risks

This section summarises our assessment and the planned response to the key audit risks which may have an impact on our objectives to:

- provide an opinion on your financial statements;
- provide a conclusion on your use of resources;
- provide a scored judgment on the use of resources to feed into the CPA process; and
- provide a report on the Council's Best Value Performance Plan.

Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including internal audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.

The expected outputs from this work are outlined in Appendix 3.

## CPA and inspections

Following the Council's classification as an 'excellent' council in 2004 CPA, we have applied the principles of strategic regulation. As a result, we will not be carrying out any service inspections in 2005/06. Our inspection activity will focus on the Direction of Travel Statement, which will provide an assessment of the Council's progress against its Improvement Plan. Our conclusions will be set out in a scored and published Direction of Travel Statement.

### SUMMARY OF INSPECTION ACTIVITY

Inspection activity	Reason/impact
Direction of Travel Statement.	To provide assurance of direction of travel and focus for continuous improvement.

## Use of resources

The new Code of Audit Practice requires us to issue a conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources. In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements.

Using our cumulative knowledge and experience, including the results of previous work and other regulators' work, we have identified the following areas of audit risk to be addressed.

We will undertake a review of your Best Value Performance Plan (BVPP) to ensure it meets the statutory requirement in respect of its content. We will issue an opinion on this plan before the end of December 2005. We will also review and comment on your systems for collecting performance information and in particular the Best Value Performance Indicators (BVPis).

We are also required to audit the achievement section of your annual efficiency statement, which sets out your response to the Gershon efficiency targets for all local authorities.

SUMMARY OF USE OF RESOURCES ACTIVITY	
Use of resources activity	Reason/impact
Use of resources judgement.	To inform the Use of Resources overall assessment in the December 2005 CPA scorecard.
VFM opinion.	To provide our conclusion as to whether the Council has appropriate arrangements in place to deliver the three Es.
Best Value opinion.	To provide our conclusion as to whether the Council's Best Value Performance Plan meets the statutory requirements, particularly in respect of the accuracy and completeness of the published BVPis.
Audit certification of the actual performance reported in the Council's annual efficiency statement.	To provide independent confirmation that the reported savings have been achieved.

## Financial statements

We will carry out our audit of the 2005/06 financial statements and have regard to the newly introduced ISAs.

We are also required to review whether the Statement of Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the Statement is misleading or inconsistent with our knowledge of the Council.

On the basis of our preliminary work to date we have identified the following audit risks.

SUMMARY OF OPINION RISKS	
Opinion risks	Response
The ISAs require more detailed documentation and testing of the controls in the main accounting system and the associated financial systems.	We will be working with Internal Audit to agree a coordinated and effective approach to the work required.
New internal audit arrangements are being introduced for 2005/06, with the establishment of the Somerset Internal Audit Partnership.	We will carry out a full review of internal audit.
The Council will be required to adopt group accounts fully for the 2005/06 accounts.	We will be holding detailed discussions with officers on the implementation of the new requirements.
The deadline for council approval of the statement of accounts is brought forward to 30 June for 2005/06.	We will benchmark the Council's closedown arrangements against identified good practice, and discuss with officers any opportunities for improvements.
This will be the second dry run year for Whole of Government Accounts (WGA), and this will be the first year that WGA information will be subject to audit.	In addition to the detailed discussions referred to above, we will also be holding seminars for finance representatives from each of the councils locally to provide the opportunity to exchange views on the key technical issues arising.
The Council needs to include a fully-compliant Statement of Internal Control (SIC) within its financial statements.	We will review the robustness of the Council's arrangements for preparing the SIC, and seek assurances that there is sufficient evidence to support the disclosures in the SIC.
The Council plans to introduce new main accounting, revenues and benefits systems during 2005/06.	We will work closely with internal audit to obtain adequate assurance that the key controls in the new financial systems operate effectively.
The Council is continuing its preparations for the possible transfer of its entire housing stock.	We will continue to monitor the financial and accounting implications of the Council's proposals for its housing stock.

However, we have yet to undertake the audit of the 2004/05 financial statements and our 2005/06 financial statement audit planning will continue as the year progresses. This will take account of:

- the 2004/05 opinion audit;
- our documentation and initial testing of material systems; and
- our assessment of the 2005/06 closedown arrangements.

When we have finalised our risk assessment in respect of your financial statements, we will update our plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

## Grant claim certification

We will continue to certify the Council's grant claims.

- Claims for £50,000 or below will not be subject to certification.
- Claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit.
- Claims over £100,000 have an audit approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.
- For certain individual claims, regardless of size, the sponsoring central government department now indicates within the certification instructions that no audit certification is required for 'excellent' councils.

## Voluntary improvement work

Where the Council requests additional work to help with the improvement agenda we will be happy to discuss detailed proposals. The fee for this work, undertaken under section 35 of the Audit Commission Act 1998, would be agreed separately.

## The team

Name	Title
Rob Hathaway	Relationship Manager
Peter Lawrence	District Auditor
Terry Bowditch	Audit Manager
Steven Frank	Local Performance Lead
Sarah Martin	Audit Team Leader

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

In relation to the audit of your financial statements we will comply with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

## Future audit plans

As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. Key areas identified include:

- a possible housing stock transfer in 2006, depending on the outcome of the tenants' ballot; and
- the further development of the 'Vision for Taunton'.

We will discuss these in more detail as the audit year progresses.

## Status of our reports to the Council

*Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.*

*ISA 260 ('Communication of audit matters to those charged with governance') requires us to report relevant matters relating to the audit to those charged with governance. For the Council, we have previously agreed that this responsibility will be discharged by reporting relevant matters to the Corporate Governance Committee.*

## The new Code of Audit Practice

### The Audit Commission's objectives in revising the Code

The Commission's objectives in revising the Code are to achieve the following key outcomes:

- a more streamlined audit targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, with a focus on audited bodies' corporate performance and financial management arrangements; and
- better and clearer reporting of the results of audits.

The new Code has been developed on the basis of the Commission's model of public audit, which defines auditors' responsibilities in relation to:

- the financial statements of audited bodies; and
- audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources.

### The main changes being made through the introduction of the new Code

The main changes being introduced through the new Code are:

- auditors' three responsibilities under the old Code, in relation to the financial aspects of corporate governance, the accounts and performance management, will be replaced by two responsibilities in relation to the accounts and use of resources, thereby mirroring their statutory responsibilities under the Audit Commission Act 1998. Auditors' work in relation to the financial aspects of corporate governance will in future largely be covered by their work on the accounts – reflecting recent developments in auditing standards – with audit work in relation to financial standing carried out as part of the work in relation to the use of resources;
- a clear focus, in auditors' work on audited bodies' arrangements for the use of resources, on overall financial and performance management arrangements. This work supports a new requirement for an explicit annual conclusion by the auditor in relation to audited bodies' arrangements for securing value for money in the use of their resources;
- a more explicit focus on improvement (through the risk assessment process) and on the need for auditors to have regard to the risks arising from audited bodies' involvement in partnerships and joint working arrangements and, where appropriate, to 'follow the public pound' into and across such partnerships;
- an emphasis on clearer, more timely reporting based on explicit conclusions and recommendations; and
- a new style narrative audit report to meet statutory and professional requirements.



## Audit and inspection fee

Audit area	Plan 2004/05 £	Plan 2005/06 £
Accounts	*	50,463
Use of resources	*	24,798
<b>Total audit fee</b>	<b>77,287</b>	<b>75,261</b>
Inspection (net of ODPM grant)	2,706	3,563
<b>Total audit and inspection fee</b>	<b>79,993</b>	<b>78,824</b>
Grant claim certification	£28,000	£27,000
Voluntary improvement work	0	0

\* Comparative information is not available for 2004/05 due to the change in the Code of Audit Practice which has reduced the three areas under the old Code to two areas.

The fee (plus VAT) will be charged in 12 equal instalments from April 2005 to March 2006.

## Assumptions

In setting the fee we have assumed:

- you will inform us of significant developments impacting on our audit;
- Internal audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all material systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing;
- officers will provide good quality working papers and records to support the accounts;
- officers will provide requested information within agreed timescales; and
- officers will provide prompt responses to draft reports.

Where these requirements are not met, we may be required to undertake additional work which is likely to result in an increased audit fee.

Changes to the plan will be agreed with you. These may be required if:

- new risks emerge; and
- additional work is required of us by the Audit Commission or other regulators.

## Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Start date	Draft due date	Key contact
Audit Plan*	1 February 2005	31 March 2005	Terry Bowditch
Interim Audit Memorandum	Jan 2006	31 March 2006	Terry Bowditch
BVPP Opinion and PI Audit Memorandum	May 2005	August 2005	Terry Bowditch
Report to those charged with Governance (ISA 260)	August 2006	September 2006	Terry Bowditch
Final Accounts Memorandum	1 July 2006	September 2006	Terry Bowditch
Annual Audit and Inspection Letter (including Direction of Travel Assessment)	October 2006	16 December 2006	Rob Hathaway

\* To be revisited during the year to reflect outcome of 2004/05 final visit and 2005/06 interim visit.

## The Audit Commission's requirements in respect of independence and objectivity

Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISAs when auditing the financial statements. ISA 260 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. Ethical standard 1 also places requirements on auditors in relation to integrity, objectivity and independence.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Board on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director;
- audit staff are expected not to accept appointments as lay school inspectors;
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;
- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;

- auditors are expected to comply with the Commission's policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
- audit suppliers are required to obtain the Commission's written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body; and
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

## **TAUNTON DEANE BOROUGH COUNCIL**

### **CORPORATE GOVERNANCE COMMITTEE, 13 JULY 2005**

#### **REPORT OF THE FINANCIAL SERVICES MANAGER**

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

#### **STATEMENT OF ACCOUNTS 2004/05**

##### **EXECUTIVE SUMMARY**

The Annual Statement of Accounts for 2004/05 is required to be approved by the Corporate Governance Committee. To promote debate on the Annual Accounts, members of the Financial Services Unit will do a presentation on the main financial highlights arising from the Accounts and will be available to answer questions that the Committee may have.

#### **1 Purpose**

- 1.1 To obtain the Committee's approval of the annual Statement of Accounts as signed by the Leader of the Council and the Strategic Director.

#### **2 Background**

- 2.1 Under the Accounts and Audit Regulations the Statement of Accounts is required to be approved by a resolution of a nominated committee. The current constitutional arrangements allocate this responsibility to the Corporate Governance Committee. In addition to being signed by the Council's S151 officer (the Strategic Director), the annual accounts have to be signed by the Chair of the Council Committee that approves those accounts. This responsibility therefore falls upon the Chair of this Committee.
- 2.2 The existing legislation requires the 2004/05 Statement of Accounts to be formally approved by Members by the end of July. It is pleasing to note that these Accounts are being presented to Members two weeks ahead of that deadline.
- 2.3 Next year this statutory deadline is being moved back one month to the end of June.
- 2.4 The 2004/05 Accounts presented this evening are subject to audit, which is currently being undertaken by the Audit Commission. The Accounts presented this evening are complete, subject to the Auditors Opinion.

#### **3 Statement of Accounts**

- 3.1 The format of the Statement of Accounts is largely the same as last year, and complies fully with current local authority accounting arrangements. A new requirement for 2004/05 is for the inclusion of Group Accounts which bring into the Council's financial statements the

activities of organisations over which the Council has significant control, for example Tone Leisure. The Council's Group Accounts are shown towards the back of the document presented this evening.

- 3.2 The Principal Accountant and Financial Services Manager will do a brief presentation on the main highlights shown in the Annual Accounts and will be available to answer queries which the Committee may have. However as the Annual Accounts are a largely technical document it would be useful to receive advance notification of particular questions in order that a comprehensive answer can be provided at the meeting.

**4 Notice of Conclusion of Audit**

- 4.1 Following the conclusion of Audit, this Committee will be informed of any significant amendments arising. If there are no significant amendments, there will be no further report on the 2004/05 Statement of Accounts.

**5 Effect on Corporate Priorities**

- 5.1 Being a corporate document detailing all of the financial activities of the Council the Statement of Accounts for 2004/05 impacts on all corporate priorities.

**6 Recommendations**

- 6.1 The Committee is recommended to:

a) Approve the Statement of Accounts for 2004/05.

b) Make the following determinations in respect of the year ended 31 March 2005:-

1. Section 42(2)(g)

That £599k of expenditure for capital purposes, which was financed by grant, be capitalised.

2. Section 60(2)

That £2,218k of useable capital receipts be applied to meet capital expenditure.

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**TAUNTON DEANE BOROUGH COUNCIL**

**CORPORATE GOVERNANCE COMMITTEE 13<sup>th</sup> JULY 2005**

**INTERNAL AUDIT SERVICES – ANNUAL REPORT 2004/2005**

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

**EXECUTIVE SUMMARY**

Under the Account and Audit Regulations 2003, the Council is required to maintain an adequate and effective system of internal audit of its financial management and system of internal control, in accordance with proper internal audit practices. This report summaries internal audit activity over the 2004/05 financial year.

**1. Purpose of Report**

Internal Audit forms part of the corporate governance and internal control arrangements for the Council. The person responsible for the Internal Audit function is required to submit a formal report to members which should include:-

- An opinion on the adequacy and effectiveness of the Council's internal control environment.
- Disclose any qualifications to that opinion.
- Present a summary of Internal Audit work undertaken to formulate that opinion.
- Compare work undertaken with the work that was planned and summarise the performance of the Internal Audit function against performance measures.

**2. Internal Audit Opinion**

Overall the Council has in place an adequate and effect internal control environment. Most audits undertaken during 2004/05 showed compliance with the relevant internal controls. Whilst recommendations have been made to improve the internal control environment in some areas, there were no instances in which internal control weaknesses created significant risks for the Council activities or services. Where any control weaknesses were identified recommendations for improvement have either been adopted or have been acknowledged for action by Service Managers.

#### **4. Summary of work undertaken**

##### **Audit**

There were 31 audit reviews completed during 2004/05 that resulted in 269 recommendations. A list of those reviews completed during the year is shown in Appendix A. Detailed reports have been issued to the relevant Service Managers on the results of individual audits completed during the year. In addition new reporting arrangements have now been put in place so that interim and final reports are issued to Heads of Service. This process will ensure that each Head of Service can review the standards of internal control and focus on weaknesses with a view to progressing remedial action where appropriate. In all audits undertaken it is considered that the objectives for the review were fully met and recommendations for improvement to the internal control environment have been agreed with management. Each audit area is revisited after 6 months to review whether the agreed management actions have been successfully implemented.

##### **Risk Management**

Internal Audit has been fully involved in embedding Risk Management across the Council working on risk identification covering service, strategic and project risks.

##### **Value for Money**

Reviews were completed during 2004/05 on the use of mobile phones and the Council's control team functions within Finance and Revenues. Both reviews resulted in recommendations being made that have identified either service improvements or potential budgetary savings.

##### **Information Governance**

The section has been involved with the update and review of the Council's Information Services Strategy, continued to provide advice and guidance on Data Protection issues and has played a fundamental role in the implementation of the Freedom of Information Act across the Council.

##### **Contract Audit**

The section has continued to review all final accounts but has also undertaken work on the Council's major partnering initiatives including the maintenance of gas central heating systems.

##### **General Financial Advice**

The section has continued to provide general finance and guidance on internal control issues to staff across the Council.



## 5. Performance against 2004/05 Audit Plan

This section of the report informs members of the work undertaken by Internal Audit during the 2004/05 financial year, comparing performance against the Annual Plan that was agreed by the Committee last year. The table below shows the planned audit days compared to the days delivered during 2004/05

<b>Description</b>	<b>Days Planned</b>	<b>Days Delivered</b>
Main Financial Systems	178	201
Information Governance	133	81
Contract Audit	50	17
Other Areas of Work	105	70
Fraud & Corruption	60	49
Departmental Systems	223	103
<b>Total</b>	<b>749</b>	<b>521</b>

Performance during 2004/05 was affected by a number of issues including a part-time vacancy, increased sickness levels and most significantly the time devoted to setting up the South West Audit Partnership which should reap rewards over time. Despite these unforeseen circumstances the section still managed to complete 75% of what it set out to do in the 2004/05 Audit Plan.

## 6. Recommendation

The Committee should note the content of this report.

## Appendix A

### Detail of Internal Audit Reviews completed during 2004/05

Sheltered Scheme Managers  
Review of Control Team  
Sale of Council Houses  
Wellington Sports Centre  
Taunton Pool  
St James Street Pool  
Vivary Park Golf Course  
Wellsprings  
Blackbrook Sports Centre  
National Non-Domestic Rates  
Cash Receipting  
Council Tax  
Bank Reconciliation  
Capital Charges  
Main Accounting  
Creditors  
Taunton Deane Debts  
Housing Benefits  
Treasury Management  
Housing Rents  
Concessionary Travel  
Officers Allowances, Gifts & Hospitality  
Car Loans  
Licensing  
DLO/DSO accounts  
CCTV  
Payroll  
Piper  
Housing Benefits Post Room  
Housing Rent Arrears  
Mobile Phones

**TAUNTON DEANE BOROUGH COUNCIL**

**CORPORATE GOVERNANCE COMMITTEE 13<sup>th</sup> JULY 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**

This report highlights significant findings and recommendations that have occurred since the Committee last met in Feb 2005. 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 2004/05 financial year and any outstanding recommendations from previous financial years.

**1. Purpose of Report**

To provide members with an update on the progress made against agreed audit recommendations from 2004/05 and to present an update on the activities of the Internal Audit team for the period Jan 2005 to June 2005.

**2. Summary of Agreed Actions 2004/05 Audits and any outstanding recommendations from previous financial years**

There were 31 audit reviews completed during 2004/05 that resulted in 269 recommendations. Follow-up visits have yet to be completed for all of those audit areas. Summary details of progress against the recommendations is attached as Appendix A.

123 (88%) out of the 139 recommendations made during 2003/04 have now been implemented. Of the remaining 16, 7 have been re-reported during the 2004/05 audits and the remaining 9 will be revisited during 2005/06.

The Internal Audit team have now started to issue audit reports that include individual risk ratings for recommendations (High, Medium, Low), future reports will include a breakdown for each audit undertaken and performance will be monitored to ensure that recommendations are implemented.

**3. Work undertaken by Internal Audit since Jan 2005 to June 2005**

Included at appendix B is a detailed list of the audits completed from Jan 2005 to June 2005 including any **significant** findings or recommendations.

**4. Performance against the 2005/06 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. The secondment is due to end shortly and the team will be strengthened by the employment of temporary support over the summer. The team is on track to meet the 2005/06 Audit Plan.

**5. Recommendation**

The Committee should note the content of this report.

Summary of progress made against 2004/05 recommendations

Appendix A

Audit Area	2004/05 Recommendations	No. actioned	No. outstanding	Comments
Sheltered Scheme Managers	8	-	-	Not followed-up as due to changes in the arrangements for Sheltered Scheme Managers
National Non-Domestic Rates	3	1	2	Two 03/04 recommendations on staffing issues (separation of duties and procedure guides) both carried forward to 04-05, still to be implemented.
Cash Receipting	9	6	3	Two 03/04 recommendations on cashing cheques still outstanding both carried forward to 04-05 still be implemented.
Council Tax	13	7	6	Staffing issues, review of work, user profiles
Bank Reconciliation	8	7	1	Cancelled cheques narrative
Review of Control Team	1	1	0	
Sale of Council Houses	0	-	-	
Wellington Sports Centre	16			Will not be followed-up responsibility of Trust
Taunton Pool	12			Will not be followed-up responsibility of Trust
St James St Pool	10			Will not be followed-up responsibility of Trust
Vivary	17			Will not be followed-up responsibility of Trust
Wellsprings	17			Will not be followed-up responsibility of Trust
Blackbrook	21			Will not be followed-up responsibility of Trust
Capital Charges	1			04-05 Audit not yet followed-up
Main Accounting	3			04-05 Audit not yet followed-up
Creditors	9			04-05 Audit not yet followed-up
Taunton Deane Debts	10			Three 03/04 recommendations on system changes required + staffing issues, 04-05 Audit

				not yet followed-up
Housing Benefits	19			04-05 Audit not yet followed-up
Treasury Management	1	1	0	
Payroll	7			04-05 Audit not yet followed-up
Housing Benefits Post Room	22	17	5	
Priory Depot Stores 2003/04	-			Two 03/04 recommendations on staffing issues still to be implemented.
Housing Rents	6			04-05 Audit not yet followed-up
Planning Fee Income 2003/04	-			One 03/04 recommendation system enhancements required
Concessionary Travel	3			04-05 Audit not yet followed-up
Periodic Income 2003/04	-			Four 03/04 recommendations staffing issues + system enhancements still to be implemented.
Officers Allowances, Gifts & Hospitality	9			04-05 Audit not yet followed-up
Members Allowances & Hospitality 2003/04	-			Two 03-04 recommendations (records and monitoring) still to be implemented
Car Loans	6			04-05 Audit not yet followed-up
Piper	5			04-05 Audit not yet followed-up
Licensing	1			04-05 Audit not yet followed-up
DLO/DSO accounts	1			04-05 Audit not yet followed-up
Housing Rent Arrears	0	-	-	
CCTV	20			04-05 Audit not yet followed-up
Mobile Phones	11			04-05 Audit not yet followed-up
<b>Totals</b>	<b>269</b>	<b>40</b>	<b>17</b>	

**Housing Rents :** 😊

The review concentrated on the testing of the Housing Rents 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 recalculation of the Rent formula. The review identified issues around separation of duties which has been traditionally difficult to achieve given the small size of the section. However, the situation should improve as result of the appointment of a new Rent and Income Officer and transfer of staff from the Control Team within the Accountancy Section.

**Creditors :** 😊

The review concentrated on the testing of the Creditors System examining the overall controls in place and focusing on the findings of the risk analysis undertaken prior to the start of the review. A new cheque signing machine has been installed and control issues have been discussed with staff as part of the audit. It is our opinion that the Creditors System operates within a satisfactory system of internal control in most key areas. There were, however, some areas that needed to be addressed by management including prompt payment of invoices and a lack of a business contingency plan.

**Debtors :** 😊

The review concentrated on the testing of the Debtors System examining the overall controls in place and focusing on the findings of the risk analysis undertaken prior to the start of the review. The review identified issues around separation of duties which has been traditionally difficult to achieve given the small size of the section. It is our opinion that the Debtors System operates within a satisfactory system of internal control in most key areas. There were, however, some areas that needed to be addressed by management including the lack of division of duties, delays in raising and writing off accounts.

### **Housing Benefits :** 😊

The review concentrated on the testing of the Housing Benefits System examining the overall controls in place and focusing on the findings of the risk analysis undertaken prior to the start of the review. The Benefits Service was reviewed by the Benefits Fraud Inspectorate during 2004 and a detailed action plan of weaknesses has been drawn up by management and submitted to the Resources Review Panel 23 September 2004. It is our opinion that the Housing Benefits System operates within a satisfactory system of internal control in most key areas. There were, however, some areas that needed to be addressed by management including the scanning of all claims documentation to the DIP system, the use of temporary staff on key tasks and the coding of HB overpayments for subsidy purposes.

### **Payroll :** 😊

The review concentrated on the testing of the Payroll System examining the overall controls in place and focusing on the findings of the risk analysis undertaken prior to the start of the review. The Payroll System was replaced in April 2004 and the service now works more closely with HR as a result of the merging of the two services. It is our opinion that the Payroll System operates within a satisfactory system of internal control in most key areas. There were, however, some areas that needed to be addressed by management including the production of an accurate establishment list, completion of procedural guides and improvements in the quality of management information from the new system.

### **Housing Benefits Post Opening :** 😞

The review concentrated on the Council's arrangements concerning the receipt and processing of prime documents sent in support of Housing Benefits claims. Testing focussed on adherence with the Council's HB and CTB post opening procedures and various areas for improvement were identified as well as areas of non-compliance with the Council's procedures. Areas of non-compliance included safe security, security checking of staff employed within the Post Room and management supervision of work.



**Piper:** 😊

The audit review focused on the process of installing, removing and charging for Piper units. It is our opinion that the Piper System operates within a satisfactory system of internal control in most key areas. However, the review identified several service improvements including the speed at which rent accounts are updated and the backdating of these charges.

**Car loans:** 😞

This review concentrated on the adherence to the terms and conditions of the car loan scheme, only eligible employees receive a loan and that those who do are repaying appropriately. The review identified several control weakness which included the lack of a procedure guide, car loan checklist and non conformance with some of the terms and conditions of the scheme.

**Officer's Allowances and Overtime** 😊

The review of officer's allowances and overtime concentrated on compliance with the Council's Financial Regulations which are held up as being key to achieving sound accounting and management practices. It is our opinion that officer's allowances and overtime payments operate within a satisfactory system of internal control in most key areas. There are, however, some areas that need to be addressed by management including the reimbursement of expenses without receipts, the authorisation of claims and the use of the Council's flexi-time system.

## **Concessionary Travel** 😊

Since April 2004 the scheme has been run by Somerset County Council who also administer the scheme on behalf of the other Somerset Districts. It is our opinion that the Concessionary Travel Scheme operates within a satisfactory system of internal control in most key areas, however, one area of weakness was identified in that there is no formal Service Level Agreement in place between TDBC and SCC.

## **Licensing:** 😊

The Licensing audit was carried out to establish whether the arrangements in place are effective in protecting the Council against fraud, theft or misappropriation. The review found that the licensing system operates within a satisfactory system of internal control with only one area that needed to be addressed in relation to the storage of licence application information.

## **Housing Rent Arrears:** 😊

The Housing Rent Arrears audit was carried out to establish whether the arrangements in place are effective in protecting the Council against fraud, theft or misappropriation as well as ensuring that it efficiently collects any arrears due. The review found that the Housing Rent Arrears system operates within a satisfactory system of internal control with no recommendations made during the audit.

## **DLO Accounts:** 😊

The review concentrated on the testing of the accuracy of the information contained within the DLO Statement of Accounts and the overall system of internal control in place. It is our opinion that the systems the DLO have in place for controlling income and expenditure operate within a satisfactory system of internal control. However, the review identified that there was no target in place for the creation of invoices and the review evidenced delays in the raising of invoices for works completed.

**CCTV:** ☹️

The review concentrated on the Council's arrangements concerning the process of monitoring, recording and storing images captured as part of the Council's Town Centre CCTV operations. Testing focussed on adherence with the Council's CCTV Code of Practice and significant areas for improvement were identified as well as areas of non-compliance with the Council's Code. Overall internal control was weak and only limited assurance could be given as part of the audit. Significant weaknesses included access arrangements to the monitoring room, no formal annual review of the scheme's effectiveness and inadequate signage.