

AUDIT COMMITTEE

MEETING, 6TH DECEMBER, 2006

Present – Councillors J. Walsh (Chairman), Ayub, Connell, Hamilton, Hayes and A. Walsh.

Also in attendance

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| Mr. S. Arnfield | - | Director of Corporate Resources |
| Mr. J. Midlane | - | Head of Internal Audit and Service Development |
| Mr. K. Wharton | - | Approved Auditor KPMG |
| Mr. A. Mee | - | KPMG |
| Mr. A. Jennings | - | Democratic Services Manager |

Councillor J. Walsh in the Chair.

16. MINUTES

The minutes of the proceedings of the meeting held on 20th September, 2006 were submitted and signed as a correct record.

17. INTERNAL AUDIT REPORT 2006/07

The Head of Internal Audit and Service Development submitted a report which informed the Committee of the progress made against the agreed Audit Plan and summarised the findings of the internal audit reviews which had been undertaken.

The report covered the following:-

- commented on the overall adequacy and effectiveness of the internal control environment;
- any qualifications to the opinion;
-

a summary of the work undertaken to date to formulate the opinion; and

- to comment on the compliance with the CIPFA standards and internal audit performance.

The report covered the period from 1st April, 2006 to 31st October, 2006 and informed members of the following:-

2005/06 reports issued	24
2006/07 audit reports issued	12
2006/07 audits ongoing	21

A summary of the findings from the reports issued to date were included at Appendix A.

On the basis of the work carried out by internal audit and the records made available, the Head of Internal Audit and Service Development was of the opinion that, overall, the internal control environment of the Authority was adequate and effective.

Following a question from members, the Head of Internal Audit indicated that a copy of his report on Turton High had been sent to the LEA, the Head Teacher and Governors of Turton High School. Although there were a significant number of recommendations members were reassured that they were being addressed by the School.

Resolved – That the Internal Audit activity up to 31st October, 2006 be noted, together with the opinion of the Head of Internal Audit on the internal control environment.

18. KPMG REVIEW OF INTERNAL AUDIT – UPDATE

The Head of Internal Audit informed the Committee of the progress made with the implementation of the recommendations made by KPMG's review of the Internal Audit Section.

Members were reminded that KPMG had undertaken a review of the Internal Audit Section which tested compliance with the CIPFA Code of Conduct for Internal Audit; it was noted that a revised Code would be issued shortly. The Committee had requested a progress report on the implementation of the recommendations.

The review had resulted in 16 agreed recommendations which had now been implemented and further details were provided in the Appendix to the report.

Resolved – That the progress made in implementing the recommendations from the KPMG review of internal audit be noted.

19. AUDIT COMMITTEE MONITORING OF CORPORATE RISKS

The Director of Corporate Resources submitted a report which outlined a process which would allow the Audit Committee to monitor the Council's corporate risks, as requested at the Committee's last meeting.

The process would need to link with the role of the Executive and members were reminded of the Committee's terms of reference as they related to risk management.

Members were reminded that the corporate risks were identified by EMT every two years, which included sharing them with members, after which they were placed on the risk register. The risk management action plans were monitored by the Corporate Risk Officer who reported back to EMT annually.

It was proposed that the Committee could be involved in the following ways:-

- review the results of the biennial corporate risk identification exercise; and
- receive reports on the progress of the individual risk management action plans.

As part of the above, the Committee could make observations and recommend changes. The Director also indicated that any significant changes to any identified risks would be reported.

Resolved – That the proposals for involving the Committee in the identification and monitoring of the Council's corporate risks be agreed.

20. ANNUAL EXTERNAL AUDIT REPORT 2005/06 – DRAFT

Representatives from KPMG submitted the Annual External Audit Report 2005/06 which detailed findings relating to:-

- audit of accounts;
- audit of data quality; and
- work on the Authority's use of resources.

KPMG had issued their opinion on the Authority's 2005/06 financial statements on 29th September, 2006.

The key issues arising from the accounts audit were:-

- weaknesses in the completeness of asset registers and the timelines of asset revaluations; and
- rectifying the ongoing discrepancies on the bank reconciliations and putting in place actions to prevent these differences arising going forward.

The Director of Corporate Resources reported that actions had now been taken to deal with the above issues.

With respect to the Authority's use of resource, the report indicated that an unqualified conclusion had been reported to the Constitution Panel in September, 2006, which indicated that the Authority had achieved the criteria specified by the Audit Commission.

However, KPMG were not yet able to inform the Council formally of its overall score but, given the individual scores in each of the categories in the key lines of enquiry, it was likely to be a 3; it was hoped the final score would be issued in the new year and KPMG concluded that, overall, it was an extremely positive report.

Details of the Action Plan to deal with the issues highlighted in the report would be reported to a future meeting of the Committee.

Resolved – That the report be noted.

21. REVIEW OF MEDIUM TERM FINANCIAL STRATEGY

KPMG provided a review of the medium term financial strategy (MTFS) which was the key financial document that underpinned the strategic direction of the Council.

The MTFS reflected the overall service plans and strategies that were in place and the identified corporate issues and provided guidance and direction to the production of the Bolton Plan and to the subsequent year's service strategies.

The key findings of KPMG's healthcheck were as follows:-

- a strong business planning cycle was in place, both corporately and at a service area level; the MTFS was one of the products of this cycle rather than the sole aim;
- the MTFS took account of and reflected the strategic direction within the Bolton Plan;
- areas for corporate investment were identified via a formal process, as part of the business planning cycle, with input both corporately and at a service area level;
- a risk register was maintained and reviewed to ensure that it was up-to-date and appropriately reflected the risks facing the Council; and

- the un-audited financial statements demonstrated that levels of General Fund balances had been successfully maintained above the minimum level recommended by the Director of Corporate Resources; current financial reporting forecasted that this would continue in 2006/07.

The key learning points were as follows:-

- all significant costs should be considered within the MTFS, where appropriate; where costs were unknown but likely to be incurred, it would be prudent to establish balances to support estimated future outflows;
- increasing corporate accountability for service areas in respect of financial performance against the MTFS would provide additional assurance that service area MTFS were being achieved and that the overall financial position of the Authority was maintained; and
- ongoing reductions in available resources increased the need for local authorities to ensure that service areas were held accountable for corporate investment and could demonstrate that planned outputs had been achieved.

KPMG would undertake discussions with the Director of Corporate Resources/Head of Internal Audit as to an action plan to address the key issues.

Resolved – That the report be noted.

22. EXTERNAL AUDIT - AUDIT MEMORANDUM

KPMG submitted an Audit Memorandum which set out the key findings from all the audit work KPMG had performed this year.

The findings were divided into two parts, viz:-

- a) use of resources – Appendix 1b to the report; and
- b) accounts and statements of internal control – Appendix 1a to the report.

KPMG's more detailed findings were presented in sections two and three of the report. The annual report fed directly into the Annual Audit and Inspection Letter to be produced by the Authority's relationship manager.

With respect to the use of resources, KPMG had concluded that the arrangements the Council had in place were adequate (it was noted that this was the highest opinion given in audit terms).

With respect to the accounts and statement of internal control, KPMG provided an unqualified opinion on the 2005/06 accounts. In order to complete the accounts audit, there were a number of matters brought to the Council's attention:-

- a) to provide KPMG with a management representations letter (Appendix 4); KPMG were required by auditing standards to request management to confirm to them general matters, such as the Council's overall understanding of its financial position;
- b) KPMG confirmed that there were no incorreced misstatements; and
- c) KPMG had confirmed that they had maintained their independence throughout the audit process.

Section three of the Audit Memorandum provided a more general commentary on the completion of the accounts audit, which was supported by performance improvement observations.

The report contained the following Appendices:-

- Appendix - Proposed audit report.
- 1a

- Appendix 1b - Proposed value for money conclusion.
- Appendix 2 - Accounts performance improvement observations.
- Appendix 3 - Audit fee.
- Appendix 4 - Draft Management Representation Letter.
- Appendix 5 - ISA 260 Declaration of Independence and Objectivity.
- Appendix 6 - Summary of unadjusted audit differences.

It was noted that no additional significant post balance sheet events had occurred that would require additional adjustment or disclosure in the financial statements over and above those events already disclosed.

The Constitutional Panel, at its meeting on 27th September, 2006, had approved the report.

Resolved - That the report be noted.

23. INTERNAL AND EXTERNAL AUDIT – ANNUAL UPDATE

The Chairman reported that it was recognised best practice for the Committee to meet with representatives of internal and external audit, in the absence of the Director of Corporate Resources, to discuss any issues of concern.

KPMG and the Head of Internal Audit reported that there were no issues of concern.

Resolved – That the position be noted and that the matter be dealt with periodically, as part of the Committee's normal deliberations.