

CAA/18/2006

**KENNET DISTRICT COUNCIL**

**RESOURCES EXECUTIVE COMMITTEE**  
**to be held on 30<sup>th</sup> June 2006**

Report by Janet Ditte, Chief Accountant & Auditor

**Accounts and Audit (Amendment) (England) Regulations  
2006 and Annual Audit & Inspection Letter**

**1. Purpose of Report**

The purpose of this report is to advise members of new statutory requirements in respect of the financial governance of the Authority, which came into force on 1<sup>st</sup> April 2006

**2. Financial and Staffing Implications**

There are no staffing or financial issues arising from this report at this stage.

**3. Legal Implications**

The Accounts and Audit Regulations are statutory regulations that apply to all relevant bodies in England. The Council is a relevant body according to the definitions within the regulations and therefore, they do apply to Kennet. The 2006 regulations amend the regulations published in 2003. This report deals with the compliance of these regulations.

**4. Risk Implications**

There are no specific risk implications associated with this report.

**5. Introduction and Background**

The Accounts and Audit Regulations 2006, which came into force on the 1<sup>st</sup> April 2006, amend the previous Regulations which were issued in 2003.

As the name implies, the Accounts and Audit Regulations, provide the statutory framework for the management of the accounting and auditing arrangements required by the Council.

The amended regulations for 2006 make a number of changes that are inconsequential to the Council. More importantly, the amended regulations

require a much more explicit involvement of elected members in a number of key areas. The relevant 2003 Regulations are reproduced as Appendix A, alongside the new requirements introduced in 2006. The key areas of change are underlined.

## **6. Key New Requirements**

The following is a summary of the key **new** requirements, along with action that is being taken to ensure that they are met.

### **Regulation 4 - Responsibility for Financial Management**

Elected members now need to consider the findings of a review carried out by them, of the Authority's arrangements for internal control of its financial affairs. Much of the material for these reviews will be provided by internal officers, but there is a presumption that elected members will be able to effectively question and challenge that material and come to an informed decision.

The Council already conducts an annual review of its internal control environment, which forms the basis of the Statement of Internal Control that is reported with the Statement of Accounts. This document has been presented to Members of both the Corporate Finance Scrutiny Sub-Committee and the Resources Executive Committee. Members of the Corporate Finance Scrutiny Sub-Committee have received training to enable them to provide effective challenge and the Members Finance Conference will include a session on internal control for the benefit of all other members.

### **Regulation 6 – Proper Internal Audit Practices**

Elected members will now need to consider a review carried out by them of the Authority's arrangements for internal audit.

The work of Internal Audit is subject to regular scrutiny by the Corporate Finance Scrutiny Sub-Committee. In addition, the work of internal audit is subject to an annual report to the Resources Executive Committee. In future years, this report will be extended to ensure that it includes a full review of the arrangements for internal audit.

### **Regulation 18 – Publication of the Annual Audit Letter**

Elected members will now be required to consider the findings contained in the Annual Audit Letter, at a committee meeting of the relevant body.

Fulfilment of this requirement is covered in the next section of the report

## **7. Annual Audit and Inspection Letter**

The Annual Audit and Inspection Letter for 2004/05 was presented to the Leaders Policy Panel and Management Team, by the Audit Commission, on 18<sup>th</sup> April 2006. A copy of the document is attached as Appendix B.

This final document has been updated from the interim letter to reflect the Audit Commission's recent work on assessing the Council's Use of Resources arrangements (para. 68-71) and direction of travel in relation to the corporate performance assessment (para. 35-51).

In addition, Members' attention is drawn to the Key Messages (para. 2-13) of the report, which summarises the main points and the section on Accounts and Governance (para. 52), which confirms that the accounts for 2004/05 received an unqualified opinion.

## **8. Conclusions**

Whilst the Accounts and Audit Regulations 2006 do impose additional requirements on the Council in relation to its accounting and auditing arrangements, the Council is well placed to meet these requirements.

The Annual Audit and Inspection Letter is presented for consideration by Members.

## **9. Recommendations**

It is **RECOMMENDED THAT:**

1. Members note the amended requirements of the Accounts and Audit Regulations 2006; and
2. Consider the Annual Audit and Inspection Letter for 2004/05

## ACCOUNTS AND AUDIT REGULATIONS

Accounts and Audit Regulations 2003	Accounts and Audit Regulations 2006
<b>Regulation 4. Responsibility for Financial Management</b>	<b>Regulation 4. Responsibility for Financial Management</b>
<p>(1) The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.</p> <p>(2) The relevant body shall conduct a review at least once in a year of the effectiveness of its systems of internal control and shall include a statement on internal control, prepared in accordance with proper practices, with –</p> <p>(a) any statement of accounts it is obliged to publish in accordance with regulation 11, or</p> <p>(b) any income and expenditure account .....</p>	<p>(1) The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.</p> <p>(2) The relevant body shall conduct a review at least once in a year of the effectiveness of its systems of internal control.</p> <p>(3) <u>The findings of the review referred to in paragraph (2) shall be considered by a committee of the relevant body, or by members of the relevant body meeting as a whole, and following that consideration, shall approve a statement of internal control, prepared in accordance with proper practices in relation to internal control.</u></p> <p>(4) The relevant body shall include the statement referred to in paragraph (3) with –</p> <p>(a) any statement of accounts it is obliged to publish in accordance with regulation 11, or</p> <p>(b) any income and expenditure account ...</p>
<b>Regulation 6. Internal Audit</b>	<b>Regulation 6. Internal Audit</b>
A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices, and any	(1) A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal

APPENDIX A

<p>officer or member of that body shall, if the body requires –</p> <p>(a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and</p> <p>(b) supply the body with such information and explanation as that body considers necessary for that purpose.</p>	<p>control.</p> <p>(2) Any officer or member of a relevant body shall, if the body requires</p> <p>(a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and</p> <p>(b) supply the body with such information and explanation as that body considers necessary for that purpose.</p> <p>(3) <u>The relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit.</u></p> <p>(4) <u>The findings of the review referred to in paragraph (3) shall be considered, as part of its consideration of the system of internal control referred to in paragraph (3) of regulation 4, by the committee or meeting referred to in that paragraph.</u></p>
<p><b>Regulation 19. Publication of Annual Audit Letter</b></p>	<p><b>Regulation 18. Publication of Annual Audit Letter</b></p>
<p>As soon as reasonably possible after it is received, a relevant body shall –</p> <p>(a) publish the annual audit letter received from the auditor; and</p> <p>(b) make copies available for purchase by any person on payment of such sum as the relevant body may reasonably require.</p>	<p>As soon as reasonably possible after <u>receipt of the annual audit letter from the auditor or the Commission, a committee of the relevant body or the members of the relevant body meeting as a whole, shall meet to consider it and following that consideration –</u></p> <p>(a) publish the annual audit letter received from the auditor; and</p> <p>(b) make copies available for purchase by any person on payment of such sum as the relevant body may reasonably require.</p>