

Audit Committee

A meeting of the Audit Committee was held on 8th May 2006.

Present: Councillor B. Woodhouse (Chairman), Councillors Cains, Cherrett, Patterson, Perry, Stoker.

Officers: I. Jones, B. Simpson (R); M. Henderson (LD).

Apologies for absence were submitted on behalf of Councillors Noble and Womphrey.

Also in attendance: was Gill Gittins (Audit Commission).

119 Timing of Future Meetings

Members considered the timing of future meetings and agreed that generally meetings should take place at 3.30 p.m, but that the time be flexible, at the discretion of the Chairman.

RESOLVED that future meetings take place at 3.30 pm, but that the time be flexible, at the discretion of the Chairman.

120 Terms of Reference

Members were provided with details of the Committee's Terms of Reference and Statement of Purpose which had been approved by Council at its meeting held on 25th January 2006.

A suggested Work Programme for 2006/07 was also provided for Members consideration.

RESOLVED that

1. the Committee's Terms of Reference and Statement of Purpose be noted.
2. the proposed Work Programme be approved.

121 Audit Commission Annual Audit and Inspection Plan 2006/07

Members considered the Audit Commission's Annual Audit Plan for the Council for 2006/2007. A copy of the Plan was provided for Members' consideration.

A representative from the Audit Commission was present at the meeting to present the report to the Committee.

It was explained that the Plan set out the work that the Audit Commission intended undertaking in 2006/07. The plan had been drawn up from the Commission's risk based approach to audit planning and the requirements of the new Comprehensive Performance Assessment (CPA). The Plan reflected

- the Commission's responsibilities under the Code of Audit Practice.
- audit and inspection work specified by the Audit Commission for 2006/07.
- the Council's local risks and improvement priorities.
- current national risks relevant to the Council's local circumstances.

Members noted details of the estimated fees for the audit and inspection work planned for 2006/07.

The Committee noted that with regard to Comprehensive Performance Assessment inspections, as the Council was a four star authority there would be no service inspection during 2006/07.

Inspection activity would therefore focus on:-

- Relationship Manager Role
- Direction of travel statement
- Supporting People Programme
- ALMO re inspection

The Committee was provided with a summary of the Commission's assessment and the planned response to the key audit risks, which may impact on their objectives. The risks were detailed under the following headings:-

- Value for money conclusion
- Cross Cutting work – health inequalities
- Use of resources judgement
- Performance information
- Best Value Performance Plan
- Financial Statements
- Whole of government accounts

RESOLVED that the report be noted and approved

122 Role of Internal Audit

Consideration was given to a report advising Members of the code of conduct relating to the standards to be expected from an Internal Audit Service and how Stockton-on-Tees Borough Council's Internal Audit Service complied with that code.

Members were provided with details of the current definition of internal audit together with the minimum standard of ethics expected of the Internal Audit Service.

Additionally, a description of the organisational and operational standards required by the code of conduct was set out in the report and included: -

- The scope of Internal Audit
- Independence of Internal Audit Service
- Requirement to take information to the Council's Audit Committee
- Relationship with management of Auditors and review bodies
- Staff training and development
- Audit strategy
- Due professional care
- Reporting
- Quality Assurance

More in depth analysis of the code of conduct pointed to the need for Internal Auditors to: -

- have access to all records, assets, personnel and premises, including those of partner organisations and to obtain such information and explanations as necessary to fulfil its responsibilities.
- have arrangements in place for the reporting of suspected or detected fraud, corruption or impropriety.
- Make declarations of interest in any audits to which they were assigned.
- Target efforts to keep the external audit bill as low as possible.

The Committee noted that the Council's Audit Service currently complied with all the requirements of the code of conduct.

The Committee was informed of some new developments since the Code of Practice was introduced in 2003:-

- The role of both the Audit Committee and Internal Audit had changed. There was now an emphasis on assurance statements by all levels of managers within the control environment. The Internal Audit Section was receiving

those assurance statements from senior managers and other risk specialists and would be auditing a sample to ascertain their reliability.

- Internal Audit's role within risk management framework had been strengthened. The Audit Section had coordinated the work of other risk specialists in monitoring and challenging the Council's Risk Register.
- The Chief Internal Auditor was involved in producing the Council's Annual Statement of Internal Control and the section contributed to the provision of evidence in the assessment of strengths and weaknesses within Council controls as reported in the statement.

RESOLVED that the purpose, authority and responsibility of Internal Audit as detailed in the report be noted and agreed.

123 Internal Audit 2005/06

Consideration was given to Internal Audit's annual report 2005/2006. The report provided Members with details of the Audit Service's performance during 2004/2005. The overall performance of the Service was summarised as follows:-

88% of planned work achieved against a target of 93%, however 25 ad hoc audits had been undertaken (this had been higher than normal)
High percentage acceptance of recommendations (99.8%);
Satisfactory management satisfaction survey ratings (4.40 out of a possible 5);
Satisfactory annual report from External Auditor;
ISO9001 (2000 standard) accreditation retained;

The annual report also detailed how the Internal Audit Section had "added value" to the Council's activities. Members were provided with information under the following headings.

- Audit Methodology
- Quality and Quantity Issues
- Audit Opinion Statement

With regard to the Audit Opinion Statement Members noted that the Council had an adequate and effective internal control environment. However, a number of audit reports had identified weaknesses in monitoring the effectiveness of controls that had been put in place. This had been evidenced by the increase in the number of ad hoc investigations and associated findings. Senior management had recognized this point and were taking steps to rectify it.

Additionally the following appendices were considered

- A – Key Performance Indicators
- B – Operational Performance
- C – Details of Audits by Department
- D – Analysis of recommendations into priorities and categories by Department

With regard to Appendix D Members noted that during 2005/06 only 5 recommendations out of 837 had been classified as being of fundamental significance. The Chief Internal Auditor provided details of the recommendations concerned.

RESOLVED that the Internal Audit Annual Report 2005/06 be approved.

124 Internal Audit Proposed Annual Audit Plan 2006/07

Members considered a report advising them of the proposed annual audit plan for the financial year, 2006/07.

It was explained that, each year, Internal Audit prepared a plan of work based upon a risk assessment of all the Council's activities. The risk assessment took into consideration the perceived qualities of management, staff, systems and the importance of the service. It was not possible to review all activities each year, therefore the Council's key systems were reviewed annually and the remainder of the significant areas of activity were reviewed at least once in a five-year period.

Corporate risk management assessments were compared and analysed.

Ideally, the plan would show work carried out in the previous two years, the current year's work and plans for the next two years. Unfortunately the Audit Section was introducing a new audit management database that was structured in such a way as to make the loading of data from the old database into the new a lengthy task. This had been aggravated by the new system's risk assessment process being based on on-going audit testing rather than an annual review, as per the previous system. The Committee were therefore asked to accept that each year the plans were submitted for approval and audited by the Council's external auditors and, as the new database records built up, the plans would return to the intended format.

The plan had been discussed with the Corporate Director of Resources (the 1972 Local Government Act section 151 officer), Service Groupings and the Audit Commission. Comments had been taken into account accordingly. As previously stated, the plans would not normally go more than two years into the future. Therefore, at this stage, plans for the third year onwards were merely an indication of what could be expected.

RESOLVED that the proposed planned audit work be noted and accepted.