

Audit Committee

A meeting of Audit Committee was held on Monday, 4th June, 2007.

Present: Cllr Barry Woodhouse (In the Chair); Cllr Maurice Frankland (Vice Councillor Mrs O'Donnell), Cllr Robert Gibson, Cllr Ross Patterson and Cllr Mick Womphrey.

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

Also in attendance: No other person was present.

Apologies: Cllr Fletcher, Cllr Perry, Cllr O'Donnell, Cllr Mrs Walmsley and Cllr Mrs Nelson.

A Declarations of Interest

1/07

No interests were declared at the meeting.

A Timing of Meeting

2/07

The Committee considered the timing of its meetings for the Municipal Year 2007/08.

RESOLVED that the Committee meet at 4.00pm.

A Audit Committee Terms of Reference and Proposed Work Programme 3/07 2007/2008

The Committee considered a report detailing the Committee's current Terms of Reference and a proposed work programme for the municipal year 2007/2008. Details of the Committee's Statement of Purpose was also provided.

Members considered and agreed the work programme and noted the Statement of Purpose.

With regard to the Terms of Reference, Members noted that points 4 and 5 referred to the Committee's responsibility to consider budget and financial update reports. These had originally been included in line with guidance received at that time. Currently, as well as being part of this Committee's Terms of Reference, consideration of Medium Term Financial Plan Update reports were also undertaken by Cabinet and the Executive Scrutiny Committee.

It was explained that recent advice from CIPFA suggested that a Local Authority Audit Committee's primary role was to approve the Statement of Accounts, review and monitor the authority's internal control environment which included internal audit work and risk management. There was no specific reference in the latest advice indicating that the Committee would need to be required to review the budget and financial update reports.

With all Members being significantly involved in the budget setting process, the budget report being considered by Cabinet and Full Council and in view of the recent advice from CIPFA, it was suggested that the Committee considers recommending to Council that points 4 and 5 of the Terms of Reference be deleted. The resultant Terms of Reference were provided to Members.

RESOLVED that the Committee's Work Programme for 2007/2008 be approved.

RECOMMENDED to Council that points 4 and 5 of the Audit Committee's Terms of reference be deleted and the resultant Terms of reference, as detailed at Appendix B to this report, be approved.

**A
4/07** **Corporate Risk Register and Annual Risk Management Report 2006/2007**

The Committee considered the Risk Management Annual Report 2006/2007.

The Annual report provided details of risk management activity that had taken place over the previous 12 months. It also outlined risk management policies and practices in place and the key issues that would be addressed in the financial year. Additionally the report provided the latest version of the Corporate Risk Register with amendments made over the final quarter of the year ending 31

RESOLVED that the Risk Register and Annual report be approved.

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5/07** **Role of Internal Audit**

Consideration was given to a report advising Members of a revised 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 organizational and operational standards required by the code of conduct, and how it was considered they were being met, was set out in the report and included: -

- The scope of Internal Audit
- Independence of Internal Audit Service
- Ethics for Internal Auditors
- Requirement to take information to the Council's Audit Committee
- Auditors relationships with elected members, management, other Auditors etc
- Staff training and continuing professional development
- Audit strategy and planning
- Approach to undertaking Audit work
- Due professional care
- Reporting
- Quality Assurance and performance/effectiveness of Internal Audit

During consideration of the Scope of Internal Audit members queried if audits of partner organizations were undertaken. It was confirmed that this did happen and Internal Audit could check that funds were being used in the correct way

and produce reports to appropriate management boards. It was explained that, under certain circumstances, officers would assist to ensure continuity of a service, that may otherwise be seriously affected.

The Committee noted an Internal Strategy document, which identified critical success factors for a Council's Internal Audit service, which were supported by statements of good practice.

The Committee agreed that the Council's Audit Service currently complied with all the requirements of the code of conduct and was continuing to adapt, in a timely manner, to new developments as they arose.

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

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6/07**

Internal Audit Annual Report 2006/2007

Consideration was given to Internal Audit's annual report 2006/2007. The report provided Members with details of the Audit Service's performance during this period. Members noted that the report had previously been considered by the Committee at its meeting held on 19th April 2007. The overall performance of the Service was summarised as follows:-

96.8% of planned work achieved against a target of 93%, plus an additional 32 ad hoc audits had been undertaken.

100% acceptance of audit recommendations;

Satisfactory management satisfaction survey ratings (4.53 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, upon which it could place reasonable reliance to deliver the systems, objectives or detect fraud or other malpractice within a reasonable period.

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

Members noted that the appendices contained end of year information relating to Audit work. The same general format would be used when presenting

quarterly reports to the Committee. Additional information about individual audits would be provided, at meetings, as appropriate or if requested by members.

RESOLVED that the Internal Audit Annual Report 2006/07 be noted.

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7/07 **Internal Audit Plan 2007/2008**

Members considered a report advising them of the proposed annual audit plan for the financial year, 2007/08.

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 was 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.

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8/07 **Draft Annual Statement of Internal Control 2006/2007**

Members were informed that the Accounts and Audit Regulations 2003 required all authorities in England to conduct a review at least once a year of the effectiveness of its systems of internal control and include a Statement of Internal Control within their Statement of Accounts. The deadline for completion of the Statement of Accounts for 2006/07 was 30th June 2006. The Statement of Accounts and the Statement of Internal Control would be presented for approval to this Committee on the 28th June 2007.

A further requirement of the regulations stated that the Chief Executive and the lead Member of the Committee must sign the statement following full approval of the Committee and it was envisaged that this would take place at the Committee's meeting on 28th June 2007. A key objective of this signing off process was to secure corporate ownership of the statement's contents.

The Statement of Internal Control included an acknowledgement of responsibility for ensuring there was a sound system of control and an indication of the level of assurance that the system of internal control provided. The statement also included a description of the key elements forming the control environment, a description of the process applied in reviewing the effectiveness of the system and an outline of the actions taken or, proposed to be taken, to deal with significant internal control issues.

The Council's Statement of Internal Control for 2006/07 was provided to Members. The Council had not identified any significant issues that were not being addressed within the Statement. It was explained that the Audit Commission, the Council's external auditor, had been consulted on the process and the identification of key internal control issues.

Members discussed the Statement and agreed its content.

RESOLVED that the draft Statement be noted.