

Audit Committee

A meeting of Audit Committee was held on Thursday, 28th June, 2007.

Present: Cllr John Fletcher (Chairman), Cllr Mrs Jean O'Donnell, Cllr Ross Patterson, Cllr Maurice Perry, Cllr Mrs Sylvia Walmsley, Cllr Mick Womphrey, Cllr Barry Woodhouse.

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

Also in attendance: C. Andrew (Audit Commission).

Apologies: Cllr Gibson and Mrs Nelson.

A 9/07 **Declarations of Interest**

Cllr Woodhouse declared a personal non prejudicial interest in item number 4 entitled External Audit Plan as he was employed at a school that was subject to external inspection.

A 10/07 **A Revised Model Code of Conduct for Local Authority Members**

Members noted that the Secretary of State for Communities and Local Government had made a new Local Authorities (Model Code of Conduct) Order on 2 April 2007. The Committee was provided with a copy of the Order together with guidance that had been produced by the Standards Board for England.

The Committee was also provided with a suggested form of new model Code of Conduct for the Council and it was noted that this would form the basis of the recommendations to be submitted to and considered by Cabinet and Council in July

Members noted that the Council's Standards Committee had discussed the new Order and identified recommendations to Council surrounding the adoption of the new model code.

Members noted the information provided and the recommendations of the Standards Committee.

RESOLVED that the report be noted.

A 11/07 **External Audit Plan 2006/2007**

Members considered a plan that set out the audit and inspection work that the District Auditor proposed to undertake in Stockton on Tees Borough Council during the 2007/2008 financial year. The plan was based on the Audit Commission's risk based approach to audit planning and the requirements of the Comprehensive Performance Assessment (CPA).

Members noted the work the Commission would undertake under the Code of Audit Practice which related to the following areas:-

- Financial Statements

- Use of Resources
- Date Quality
- Best Value Performance Plan

The Committee noted that the Commission targeted work where it would have the greatest effect, based upon assessment of risk and performance. Details of the Commission's initial risk assessment on use of resources was provided.

The Committee also noted that work would be undertaken on the Council's Whole of Government Accounts consolidation pack and the National Fraud Initiative.

It was explained that the Commission would continue to certify certain grant claims and returns made by the Council.

Members were provided with details of the fees to be charged by the Audit Commission, which totalled £361,320. Details of the planned outputs of the Commission's work was also provided.

Members considered the plan and discussion developed around the following issues:-

- The increase in fees which, it was explained, was primarily due to the corporate assessment planned for December 2007.
- Increase in Direction of Travel Fee which had arisen nationally and was as a result of previous fees being inadequate.
- The effectiveness of the National Fraud Initiative

RESOLVED that the plan be received.

A 12/07 **Review of Internal Audit Service**

It was explained that under Regulation 6 of the Accounts and Audit (Amendment Regulations) 2006 an internal review of the Internal Audit Service had to be undertaken annually. This had been done under the auspices of the Corporate Governance Group and two members of that group had reviewed all the evidence and opinion to formulate a conclusion about the arrangements for internal audit and any recommendations to the Committee.

The review had placed a reliance on the following:

- a thorough investigation of the service using CIPFA's Code of Practice for Internal Audit Checklist and viewing the evidence to support outcomes
- the review of Internal Audit by the Audit Commission undertaken in April 2006 and an interview with the local manager who lead the team providing external audit
- a snapshot of the views of Heads of Service using a sample of three, whose services were such that internal audit was undertaken on a regular basis

- an audit customer satisfaction survey organised by CIPFA

Using the outcome of these four approaches, possible actions had been identified that would ensure optimum compliance with standards.

A copy of the checklist used as part of the compliance audit undertaken was provided.

The Committee agreed that the level of compliance was good and only four main areas had been identified for possible further work :

- the Head of Internal Audit meeting privately with the Audit Committee
- a more comprehensive Audit Strategy
- an access policy for files and records
- appropriate escalation procedures for recommendations not implemented

The review by the Audit Commission had been completed in April 2006 and would be repeated every three years. In summary the main conclusion was :

“overall we are satisfied that the Council has appropriate constitutional and management arrangements in place for its Internal Audit Service. In the use of Resources judgement Internal Audit has consistently scored very highly and the service ‘exceeds minimum standards. They have consolidated this assessment with work on the following :

- partnership arrangements
- developing the risk assessment process within the risk assessment group; and
- developing the methodology for the statement of internal control”

In addition the Commission asked that three issues be progressed :

- making the risk assessment process operational
- identifying timescales and responsible officers in reports
- revision to the Procedures Manual

The Committee noted that all these issues had been resolved.

A sample of three Heads were asked a subset of the questions from the CIPFA checklist that related more to customer satisfaction. Those responses were provided to Members.

An anonymous survey undertaken by CIPFA of managers within the Council had generated a good response with performance being categorised as good in 34 of 37 criteria, and adequate in the remaining three. This audit therefore gave no cause for concern.

Based on the information provided the Committee agreed that that the Internal Audit Service had adequate and appropriate management arrangements in place and provided a good service to the Council in the undertaking of all its duties.

There were four areas where specific recommendations were made:

1. that the Head of Internal Audit be asked to prepare a more extensive Strategy for the service that meets the requirements of the checklist
2. that the Audit Committee agrees appropriate written arrangements for the Head of Internal Audit to meet with it privately
3. that a formal access for files and records be agreed
4. that existing escalation procedures that apply within service groups be supplemented for situations where audit recommendations have not been implemented

The Committee considered the recommendations and noted that an Internal Audit Strategy was in the process of being produced and a written procedure would be produced with regard to formal access for files and records.

With regard to supplementing escalation procedures where audit recommendations had not been implemented it was explained that new procedures had been introduced. One of the new procedures placed a requirement of existing service performance officers to report back to Internal Audit, periodically, on implementation of recommendations. Previously implementation of recommendations had only been assessed when the particular service was re audited, as identified in the Internal Audit Plan.

Members agreed that consideration of the recommendation relating to arrangements for the Audit Committee to meet the Chief Internal Auditor in private would be undertaken later in the meeting, under the item entitled 'Local Authority Audit Committee Toolkit'.

RESOLVED that:-

1. the recommendations of the review be noted and the work undertaken and planned in response to those recommendations be endorsed.
2. based on the information provided, the Committee agrees that the Internal Audit Service has adequate and appropriate management arrangements in place and provides a good service to the Council in the undertaking of all its duties.

A
13/07

Statement of Accounts 2006/2007 (including approval of the SIC)

Consideration was given to a report that presented to Members the Council's Statement of Accounts for 2006/2007.

Members noted that the Accounts and Audit Regulations 2003 required all authorities in England to prepare their Statements of Accounts for 2006/07 by 30th June 2007. This date was one of the steps in a move by HM Treasury to bring forward the closure process ensuring that all public bodies completed their Statements and gained approval of their accounts by a set deadline. This requirement was detailed within the Government's regulation "Whole Government Accounts (WGA)" and would enable HM Treasury to consolidate all public body accounts to assist policy making and proper financial management.

To ensure the Government's timescales were met a detailed timetable had been in place for a number of years. This timetable had been reviewed on an annual basis to resolve potential problem areas and this process had been fully supported by the Council's Corporate Management Team. The Council was well placed to meet its deadlines and had worked closely with the Audit Commission to ensure all Financial Standards and Practices had been introduced and adopted.

Officers were present and provided some detail on the WGA and closure of accounts process. This included a presentation on key financial issues included within the Statement and the process employed by the Council to identify key stakeholder requirements. A copy of the full Statement of Accounts had been made available in the Members' Library, a full and draft statement were available on the Internet and a hard copy of the Summary Statement of Accounts was provided to Members of the Committee.

The Committee had previously considered and agreed the Council's draft Statement of Internal Control and a copy was available at the meeting and formed part of the Statement of Accounts.

Members considered the Statement of Accounts and raised and discussed at length, a number of issues.

Reference was made to total earmarked reserves on the Council's Balance Sheet which stood at £43,081,000. A member queried the most significant reserves and how they would they be fully utilised. The Committee's attention was drawn to the relevant part of the Statement of Accounts that detailed each earmarked reserve that provided a brief narrative (pages 46 – 49) and responded to a number of specific queries. Members noted that the earmarked reserves were created to fund future pressures and that there were risks in allocating sufficient funds to meet those pressures.

The Discussion moved to the Council's managed surplus, which stood at £4.8 million. The Committee noted the advantages of managed surpluses and how their use had benefited the Council since 1996/97. The use of Managed Surpluses allows Services to carry funds forward into future financial years to fund specific service pressures in a focused and structured manner.

The Committee was informed that the Council might have to review how it financed services and look for other sources of funding. For instance the Council did provide elements of some of its services through partnership working.

Consideration was given to the extent to which Members scrutinised the budget. The Committee was reminded that regular reports were presented to Cabinet and the Executive Scrutiny Committee. During the Budget Setting process meetings were held with individual Political Groups, together with an all Member Seminar and specific drop in sessions. The Budget was considered by Cabinet and ultimately considered and approved by Council.

Members discussed the Council's Fixed Assets which amounted to £760 million and noted that:-

- an Asset Register is maintained that includes all assets held by the authority.
- there was a four year rolling programme to re-value assets.
- Asset management plans and capital strategies are prepared and reported to Members and the government.

Members queried if the Council was able to generate money from fixed assets. It was explained that the Council did generate capital receipts that were reinvested into capital schemes approved by Members.

Members also discussed the following issues relating to the accounts

- the rationale behind the Council maintaining short term and long term Investments whilst also entering into short term and long term borrowing arrangements.

- the level of General Fund balances which was £13.2million at 31st March 2007.

With regard to balances, Members queried if any of the £13.2 million was specifically identified for expenditure.

Members noted that the Council's policy was to hold 3% of General Fund expenditure as balances and the £13.2 million at outturn represented 5.8% of our net budget requirement (£4 million of that amount had been used during budget setting 2007/2008). Therefore, working balances at the beginning of the financial year stood at £9.2 million, which was equivalent to 3.8% of General Fund expenditure. Although this was above the Council's policy of 3%, Officers advised that this level should be maintained because of a number of potentially significant pressures and opportunities facing the Council in the coming year.

Following consideration, and considerable debate of the Accounts, Members thanked Officers involved with their compilation and for the informative responses to the issues raised.

RESOLVED that the Council's Statement of Accounts for 2006/2007 be approved and the Chairman be authorised to sign the Statement's explanatory forward and the Statement of Internal Control.

A **Local Authority Audit Committee Toolkit/Committee Member Training - To**
14/07 **Discuss**

Members had been provided with a copy of the Local Authority Audit Committee

Toolkit produced by C.I.P.F.A and had been asked to consider what could be drawn from the toolkit that may improve the Committee's operation and effectiveness. It was considered that the toolkit may also point Members to areas of training need.

An issue that was identified as a possible improvement was the production of an Annual Report of the Committee. Members agreed that all reports and decisions taken by the Committee were readily available to other Members, Officers and the public, through minutes submitted to Council and via the E genda system. However, it was agreed that an annual short, summary report of the work undertaken by the Committee during each Municipal Year would be beneficial. It was important to demonstrate that the Committee did not just accept reports without thorough scrutiny of issues involved. The Committee had, on a number of occasions in the past, requested additional information and had interviewed managers in order to satisfy itself that identified problems were being properly dealt with.

It was therefore agreed that an Annual Report of the Committee should be produced for the Municipal Year 2007/2008 and subsequent years. It was noted that the minutes of the Committee would be a useful resource, however, it was agreed that it would be appropriate to expand upon them, in preparation of the report, with input from the Chairman and Vice Chairman initially, and subsequently the Committee.

The Committee agreed that the Annual Report be prepared by the Chairman and Vice Chairman in consultation with relevant expert officers, prior to agreement by the Committee and possible reporting to Cabinet and Council.

Another issue raised following consideration by the Toolkit was that the Audit Committee did not have Private Meetings with the Chief Internal Auditor. The Committee was aware that this was also a recommendation coming from the Review of the Internal Audit Service. Members did not consider that this was necessary and felt uncomfortable with the principle of private meetings. Members noted that this process would sit outside the requirements of Local Authority meetings' legislation. The Committee agreed that this was not a course of action it wished to take, at this time. It was agreed that the provisions contained within current legislation were sufficient to allow Members to discuss appropriate issues, with the Chief Internal Auditor or any officer, in private, during ordinary meetings of the Committee.

Members agreed that the Chief Internal Auditor and the Committee had established a very good working relationship based on trust and transparency. The Committee wished this to continue and were concerned that private meetings would undermine the transparency of the relationship and the Committee's work.

Members then discussed training issues and were reminded that certain induction training had been provided to Members of the Audit Committee at previous meetings. Background to areas of work and particularly, Internal Audit, Financial Monitoring, Risk Assessment and Health and Safety had been provided during the Committee's first year of operation. However, it was accepted that other, more in depth training may benefit Members.

The Committee was reminded of the role guides that had been prepared relating to skills that would perhaps assist Members and add to their effectiveness on a Committee and, following from that, increase the effectiveness of that Committee. A role guide was being prepared for the Audit Committee and it was suggested that when completed it should be circulated to Audit Committee Members to identify any gaps in the skills and experience that may be able to be filled by specific training. Any training identified could be included in individual Member's Personal Support Plan.

RESOLVED that:

1. the Committee prepares an Annual Report for the Municipal Year 2007/2008 and subsequent years.
2. when completed, role guides for Audit Committee Members be circulated to the Committee for consideration and the identification of potential training gaps.