

Audit Committee

A meeting of Audit Committee was held on Monday, 10th May, 2010.

Present: Cllr Barry Woodhouse (Chairman); Cllr Mrs Lynne Apedaile, Cllr John Fletcher, Cllr Maurice Perry, Cllr Mrs Walmsley and Cllr Mick Womphrey.

Officers: P Johnson, A Barber (R); C Andrew (Audit Commission); N Hart (LD).

Also in attendance: None

Apologies: Cllr Maurice Frankland, Cllr Kath Nelson and Cllr Ross Patterson.

A **Declarations of Interest**

13/10

No interests were declared.

A **Timing of Future Meetings**

14/10

Members discussed the timing of future meetings of the Audit Committee and agreed that all future meetings of the Audit Committee commence at 4.30pm.

RESOLVED that all future meetings of the Audit Committee commence at 4.30pm.

A **External Audit Plan 2010/11**

15/10

Members were presented with a letter that contained the Audit Commission Annual Audit Fee. The letter confirmed the audit work that the Audit Commission proposed to undertake for the 2010/11 financial year at Stockton Council. The fee:-

- was based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10; and
- reflected only the audit element of Audit Commission work, excluding any inspection and assessment fees. The Comprehensive Area Assessment Lead would be writing to Stockton on Tees Borough Council separately on inspection fees.

As the audit for 2009/10 had not yet been completed the audit planning process for 2010/11, including the risk assessment would continue as the year progresses and fees would be reviewed and be updated as necessary.

The total indicative fee for the audit for 2010/11 was for £311,000, which compared to the planned fee of £292,410 for 2009/10. A summary of this was detailed within the report.

The Audit Commission had published its work programme and scales of fees 2010/11. The Audit Commission scale fee for Stockton on Tees Borough Council was £327,308. The fee proposed for 2010/11 was -5% per cent compared to the scale fee and was within the normal level of variation specified by the Commission.

The published fee scale for 2010/11 included a 6% increase to cover the costs of additional audit work arising from the introduction of International Reporting Standards (IFRS). In July 2009, in recognition of the financial pressures that public bodies were facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to IFRS for local authorities and police and fire and rescue authorities from 2010/11. Therefore the Council would receive a refund from the Audit Commission of £18,486 in April 2010.

In setting the fee, it had been assumed that the general level of risk in relation to the audit of the financial statements was not significantly different from that identified in 2009/10. A separate opinion plan for the audit for the financial statements would be issued in December 2010. This would detail the risks identified, planned audit procedures and any changes in fee. If any significant amendments were needed to the audit fee during the course of the plan, it would be discussed with the Corporate Director of Resources and then a report would be prepared outlining the reasons why the fee needed to change for discussion with the Audit Committee.

Use of resources assessments would be based upon the evidence from three themes:-

- Managing finances;
- Governing the business; and
- Managing resources

The key lines of enquiry specified for the assessment were set out in the Audit Commission's work programme and scales of fees 2010/11. The work on use of resources informed the 2010/11 value for money conclusion. However a number of risks had been identified in relation to the value for money conclusion. For each risk, it was considered the arrangements put in place by the Council to mitigate the risk, and plan the Audit Commission's work accordingly. The initial risk assessment for value for money audit work was detailed within the report.

A number of reports relating to the work of the Audit Commission would be issued over the course of the audit. These were attached to the report.

The above fee excluded work the Commission may agree to undertake using its advice and assistance powers. Each piece of work would be separately negotiated and a detailed project specification agreed with the Council.

RESOLVED that the Audit Commission Annual Audit Fee be noted.

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16/10

Role of Internal Audit

Consideration was given to a report that outlined in December 2006, a revised code of conduct was published on the standards to be expected from an Internal Audit service. A similar report to this was last presented to the Audit Committee in May 2008. The purpose of the report was to remind Members of the code and how the Internal Audit service complied with it. This would ensure that Members could then discharge its responsibility to approve the role of the Internal Audit service.

Internal Audit was an assurance function that provided an independent and objective opinion to the organisation on risk management, control and governance by evaluating their effectiveness in achieving the organisation's objectives. It objectively examined, evaluated and reported on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

An effective Internal Audit service would:-

- understand its position in respect to the organisation's other sources of assurance and plan its work accordingly;
- understand the whole organisation, its needs and objectives;
- be seen as a catalyst for change at the heart of the organisation;
- add value and assist the organisation in achieving its objectives;
- be involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations;
- be forward looking;
- be innovative and challenging; and,
- ensure the right resources are available.

The report covered expected standards. However, over recent years there had been a number of significant happenings, mainly in the private sector, that had called into question the role and positioning of the Head of the Internal Audit service within all organisations. Consequently, CIPFA was reviewing the role, responsibilities and positioning within public sector organisations. It remained to be seen if this resulted in a revised Code of Practice.

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

A 17/10 Adoption of International Financial Reporting Standards (IFRS)

Consideration was given to a report that sought to inform those charged with governance of the most significant pieces of work that would need to be undertaken to prepare IFRS compliant financial statements for the Council and to update members on progress made so far.

The annual Statement of Accounts for the Council was produced in accordance with the requirements of the "Code of Practice on Local Authority Accounting in the United Kingdom 2009, a Statement of Recommended Practice" (SORP 2009). The SORP was based upon UK GAAP, the set of Generally Accepted Accounting Practice that were used by UK based organisations.

In 2007 the Government announced its intention that the annual financial statements of government departments and other public sector bodies would in future be prepared using International Financial Reporting Standards (IFRS) adapted as necessary for the public sector. IFRS aimed to harmonise financial reporting across the world.

Following consultation with government departments and the Financial Reporting Advisory Board, the Government agreed a phased implementation to ensure a smooth transition. The NHS and Central Government had already

implemented IFRS, local government must implement by 2010/11.

It was a statutory requirement for all local authority financial statements to be IFRS compliant by 2010/11. The SORP was being replaced by a new IFRS compliant "Code of Practice". In order to prepare IFRS compliant accounts by 2010/11, the Council would need to review and revise its accounting policies, change the format of its financial statements and include a significant number of additional disclosures. It would need to restate its 2009/10 comparative figures and report these together with its 2010/11 figures on an IFRS basis.

An Action Plan had been produced to ensure that the Council complied with the relevant timescales and this was attached to the report.

RESOLVED that:-

1. The Action Plan to enable the Council to proceed with its IFRS transition project be noted.
2. The priorities identified to enable the Council to ensure that they produce IFRS compliant financial statements be noted.
3. The Impact Assessment of the effect on the Income & Expenditure Account and Balance Sheet under IFRS be noted.

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18/10 **Corporate Governance Statement 2010/11**

Consideration was given to a report on the Council's Annual Governance Statement for 2009/10.

The Accounts and Audit (Amended) Regulations 2006 required all authorities in England to conduct a review at least once a year of the effectiveness of its governance framework and include an Annual Governance Statement within its Statement of Accounts. The deadline for completion of the Statement of Accounts for 2009/10 was 30th June 2010. The Statement of Accounts and the Annual Governance Statement would be presented for approval to Members on the 28th June 2010.

A further requirement of the regulations stated that the Statement should be signed by the Chief Executive and the leading Member of the Council, following approval by the Audit Committee. A key objective of this signing off process was to secure corporate ownership of the statement's contents.

The Annual Governance Statement included an acknowledgement of responsibility for ensuring that proper arrangements were in place around the governance of its affairs and an indication of the level of assurance that the system provided. The statement also included a description of the key elements forming the governance framework, a description of the process applied in reviewing the effectiveness of this framework, including the system of internal control, and an outline of the actions taken or, proposed to be taken, to deal with significant governance issues.

The Council's Annual Governance Statement for 2009/10 was attached to the report. The Council had not identified any significant issues that were not being

addressed within the Statement. Officers were in attendance at the meeting to report on the governance framework and control environment in place within the Council that enabled the detailed preparation of the Statement. The Audit Commission had been consulted on the process and the identification of key governance issues.

RESOLVED that the Annual Governance Statement for 2009/10 be noted.