

AUDIT COMMITTEE

A meeting of the Audit Committee was held on 6 June 2007.

PRESENT: Councillor Clark (Chair), Councillors Majid and Porley.

OFFICIALS: B Baldam, J Bennington and R G Long.

PRESENT BY INVITATION: Audit Commission:
S Reeve (Principal Auditor) and R Walker (Audit Manager)
Councillor N J Walker (Executive Member for Resources).

**** DECLARATIONS OF INTEREST**

No declarations of interest were made at this point of the meeting.

**** AN APOLOGY FOR ABSENCE** was submitted on behalf of Councillor Hobson.

AUDIT COMMITTEE – REMIT

The Deputy Director of Finance gave an introduction on the setting up and remit of the Audit Committee.

The Comprehensive Performance Assessment currently included a requirement to review an Authority's corporate governance arrangements, including the effectiveness of its internal control processes as part of its 'Use of Resources' assessment. Good corporate governance required independent, effective assurance about the adequacy of financial management and reporting in an organisation. Corporate governance also covered other elements of good business practice such as internal control and risk management, its counter-fraud arrangements and to keep under review corporate policies such as the Code of Conduct and Whistleblowing.

The Audit Committee was independent of the Executive and Scrutiny functions and had an important role in making recommendations to the Executive on the areas within its remit and submitting an annual progress report to full Council.

Guidance on developing effective Audit Committees in Local Government had been received from CIPFA which recognised the importance of an effective Audit Committee in an authority's overall corporate governance arrangements and incorporated a set of principles which should be adopted.

Given the complex nature of the reports to be considered and role of the Audit Committee training for Members was considered to be an essential element of the Committee and was the subject of a report to be discussed later on the agenda for this meeting.

RECOMMENDED as follows: -

1. That the information provided be noted.
2. That the Executive Member for Resources be invited to attend meetings of the Audit Committee.

STATEMENT OF INTERNAL CONTROL 2006/2007

The Director of Resources submitted the Council's Statement of Internal Control (SIC) 2006/2007, which was a statutory document required to be included with the final accounts. A flowchart which set out the framework for the SIC was circulated at the meeting for Members' information.

The statement was intended to provide adequate assurance that the Council had a sound system of internal control and was designed to help manage and control business risk. It was

considered to be an important statement of what the Council had put in place in respect of good business practice, high standards of conduct and sound governance.

In addition to satisfying the requirements of the Accounts and Audit Regulations, the SIC was a key measure of the overall effectiveness of the Authority.

Reference was made to the Statement of Recommended Practices 2006 which had extended the scope of the SIC to cover relationships with organisations where the control/involvement by the Council was considered to be significant.

In terms of ensuring compliance with Council decisions, rules and regulations reference was made to the contribution of the Standards Committee by considering a number of key items such as the Ombudsman Annual Letter and Report; protocol for Members and Officers on Gifts and Hospitality; Council's Whistleblowing policy; and the national Code of Conduct for Members.

The report outlined the improvements, which had been made to the control environment, the risk management process and monitoring and reporting management performance within the Council during 2006/07.

The Committee's attention was drawn to a number of other developments designed to ensure improvements in performance and financial management and governance.

The Committee considered the 'Significant Internal Control Issues', which had been raised in the 2005/2006 statement and the actions taken during 2006/2007 to address them.

Reference was made to the following areas of concern which arose during 2005/06 which had been highlighted along with the action plans in place to address them: -

a) Regeneration Works employment schemes:

Internal Audit had identified significant issues in the process and procedures being followed in such schemes.

In response it was confirmed that all project officers now underwent basic project management training and detailed training in procurement would be undertaken on an ongoing basis. Other training involved Project Officers in relation to the monitoring and information requirements of grant providers to ensure that only eligible expenditure was included in claims. Stronger management controls and checking procedures would be implemented and continue to be monitored as in the case of the other planned action.

b) CFL Surestart Grant Monitoring and Control:

Following major changes in the process from 30/40 smaller schemes to several larger schemes control and reconciliation procedures on Surestart schemes had been identified as an area of weakness putting the Council at risk of clawback.

In response it was noted that recording systems within the relevant projects had been strengthened and management were to implement more extensive and detailed checking and scrutiny of record keeping and overall grant procedures.

The recording on the use of grants would be included as a separate segment in the budget clinic process and an exit strategy would be developed for those grants ending in March 2008.

Members sought clarification on a number of areas including the following: -

i) confirmation given that measures taken were the subject of ongoing monitoring in order to sustain the necessary improvements;

- ii) recognition of problems arising from a reduced Government grant the level of which was disclosed on a yearly rather than on a three year indicative basis a problem which was being experienced nationally;
- iii) it was confirmed that there were robust systems of stepped levels of internal control in place for all grants depending on the size and different funding regimes of schemes.

RECOMMENDED as follows: -

1. That the Statement of Internal Control 2005/2006 be approved.
2. That the information provided in particular the reported internal control issues' section within the Statement and summarised in paragraph 10 of the report submitted be noted.

TRAINING PROGRAMME – AUDIT COMMITTEE

The Director of Resources submitted a report which set out proposed training for Members of the Audit Committee which covered the following areas to be undertaken by both internal and external facilitators: -

- a) Role of the Audit Committee –
To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment.
- b) Corporate Governance – an overview
The Audit Committee would become one of the keystones of the corporate governance of the Authority.
- c) Statement of Internal Control (SIC)–
The Audit Committee had a significant role to play in reviewing the annual SIC.
- d) The role of internal and external audit.
- e) The importance of risk management –
An overview of risk management arrangements across the Council was part of the Audit Committee's remit.
- f) The regularity framework of the Authority –
It was considered to be an essential area of understanding and sessions would also be included on the Comprehensive Performance Assessment and other inspection programmes that the Authority had to comply with.
- g) understanding the Council's Financial Statements.

RECOMMENDED as follows: -

1. That in consultation with the Chair the Director of Resources prepares a detailed training programme based on the areas outlined in the report and taking into account any subsequent legislative changes.
3. That such training be held in a central location such as the Town Hall and during working hours on a weekday.

ANNUAL AUDIT – INSPECTION LETTER MARCH 2007

The District Audit Manager presented the Annual Audit and Inspection Letter March 2007, which summarised the conclusions and significant issues, which had arisen from recent audit and inspection, work at Middlesbrough Council.

The Audit and Inspection Letter included key messages in relation to Middlesbrough Council's performance, accounts and governance. In particular, it provided details relating to the Council's Comprehensive Performance Assessment (CPA) score including the Use of Resources judgements, Value for Money and the Housing and Council Tax Benefits Service.

Middlesbrough had again been assessed as having a four star overall performance and improving well and the Use of Resources judgement showed an improvement from last year with all of the five categories scoring 3 as performing well.

The report stated that the Council had proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources. It also stated that improvements had been achieved in preparing the statement of accounts with better working papers through project management of the process although further improvements could be made to ensure consistency especially in respect of major capital projects.

The Committee welcomed the positive comments and results of the annual audit and inspection letter and noted the areas which had been identified where action was required in order to sustain improvement as follows: -

- a) consider what action it can take to improve those services where user satisfaction has declined; and
- b) review the approach to project management and ensure it is applied consistently across all departments.'

It was also pointed out that the Strategic Plan 2007/2008 included the following actions in response to the recommendations: -

- i) implement the Community Consultation Strategy and associated action plan;
- ii) introduce a Corporate Project Management Framework.

In terms of the overall statement, that compared with 2004, users in 2006 were less satisfied with the Council's performance although more satisfied about specific services it was suggested that this demonstrated a factor of CPA assessment across the UK in that there was a higher level of public expectation.

It was noted that a number of sources from different agencies including statistics used by the Government were used in respect of the statements regarding service user satisfaction.

RECOMMENDED that the contents and information provided on the Audit Commission's Annual Audit and Inspection Letter, March 2007 be noted in particular the areas which had been identified where action was required in order to sustain improvement.