

## AUDIT COMMITTEE

A meeting of the Audit Committee was held on 25 July 2007.

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

**OFFICIALS:** B Baldam, J Bennington and D Robinson.

### **\*\* DECLARATIONS OF INTEREST**

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

### **\*\* MINUTES**

The minutes of the meeting of the Audit Committee held on 6 June 2007 were submitted and approved as a correct record.

## **INTERNAL AUDIT – ANNUAL REPORT 2006/2007**

In compliance with current legislation and best practice the Audit Manager presented the Internal Audit Report for the financial year 2006/2007. The report contained the opinion of the Audit Manager on the adequacy and effectiveness of the Council's internal control environment and a summary of the audit work undertaken upon which the statement was based as detailed in Appendix A of the report submitted. The report was a key component of the assurance framework.

The system of internal control supported the achievement of the Council's aims and objectives whilst safeguarding public funds and its assets. Based on the work undertaken during the year reported upon and the implementation by management of the majority of recommendations made, Internal Audit could provide substantial assurance that the systems of internal control within such areas of the Council were operating adequately and effectively.

It was confirmed that improvements had been made in many of the main financial systems.

As part of the ongoing work identified with the Council's Statement of Internal Control the management controls and checking procedures had been strengthened and would continue to be monitored in respect of certain Regeneration Works employment schemes.

In terms of the internal audit activity the percentage of total available time spent on audit work was reported as 93% compared to 85% in the previous year.

Additional reviews of financial systems had taken place in schools and other establishments. The audit programme for schools had been updated during the year to ensure that schools had demonstrated the financial competencies demanded by the DfES's Financial Standards in Schools. A number of surprise audits had been carried out at leisure centres and the Municipal Golf Club which were open outside office hours to cash up and verify banking procedures.

In the financial year 2006/2007, 11 instances of irregular activity had been reported and investigated either wholly or in part by Internal Audit. Recommendations to improve control of risks identified through Internal Audit had been discussed with relevant managers and would be followed up by Internal Audit. It was confirmed that where able the Council made every effort to recover any costs owed to the Council.

Although reference was made to a number of staff changes it was confirmed that there had been a discernible improvement in the performance of Internal Audit in particular: -

- Internal Audit had contributed to increasing the internal control CPA performance score to a 3 from a 2;
- time taken to audit the accounts of Community Councils and Community Centres had been reduced by 10 days despite a request to audit the books of an additional Community Centre;

- the average time taken to audit a primary school only increased by 1 day from 12 to 13 despite additional work to identify those areas where the school did not reach the Financial Management Standard.

As Middlesbrough was a member of the CIPFA/IPF Audit Benchmarking Club information relating to costs and productivity could be compared against other unitary authorities.

Specific reference was made to the key issues for the next year as follows: -

- a) in view of the vacant posts and reliance upon using agency staff efforts would continue to recruit suitably qualified and experienced staff to deliver the audit plan;
- b) as part of the arrangements to improve the Council's CPA score Internal Audit would continue to promote improvements in controls through audit raising awareness and assurance work;
- c) implementation of the new Code of Practice for Internal Audit in Local Government which promoted a risk-focused approach to auditing and strengthened the requirements for monitoring the performance and effectiveness of Internal Audit.

**RECOMMENDED** that the Internal Audit Annual Report for the financial year 29006/2007 and the information provided be noted.

### **AUDIT PLAN 2007/2008**

In compliance with current legislation the Audit Manager presented a report which outlined the Audit Strategy for the Council and set out a plan of work to be completed by Internal Audit in the 2007/2008 financial year as shown in Appendices A and B respectively.

The function of Internal Audit was to provide to the Council an independent and objective opinion on the control environment by evaluating its effectiveness in achieving the Council's objectives by working closely with the Audit Committee, Director of Resources and Chief Executive.

The Audit Plan was based upon Internal Audit's risk assessment of the Council's audit need and was designed to provide the Audit Committee with assurance that the Council's framework of internal control was effective and supported the Committee's review of the corporate governance arrangements of the Council.

The annual audit plan set out how Internal Audit resources would be deployed between assurance and any consultancy work and fraud related work. It listed the audit work areas to be covered in achieving the requirements of the audit code of practice and would enable the Audit Manager to provide an overall opinion on the Authority's internal control arrangements at the year-end.

The audit resources were focused on areas that represented the greatest risk to the Authority determined as:

- the content of Corporate and Service risk registers;
- listing of key critical services (and associated IT system) defined to assist Business Continuity Management Planning;
- the outcome of discussion with Heads of Service;
- the outcome of discussion with the external auditors;
- Internal Audit Section's own views on areas of material risk not identified by other means.

For each area included in the plan, a level of risk had been identified, the vulnerability of each auditable area had been assessed using a technique, which considered and scored identified threats. The scores took into account the Council's risk arrangement process as well as the outcome of previous audits and changes introduced by services to enhance internal controls.

To ensure that the work of Internal Audit remained focussed on the risks facing the Council, the allocations to work areas would be re-assessed throughout the year to determine their continued appropriateness in the light of any emerging threats and vulnerabilities.

Specific reference was made to the current establishment of the Internal Audit Service, which equated to 14 full time equivalent posts, although 5.5 posts were currently vacant. It was confirmed that it had proved necessary to supplement current staffing levels by recruiting from agencies. Although the Internal Audit Section had a high number of vacant posts it was pointed out that the available resources were not significantly below those of Internal Audit sections of other unitary authorities. The benchmark figure was an establishment of 9/10 auditors.

Members raised concerns about the high cost of agency staff and the reliance of the Council on such staff. In terms of the existing problems of recruitment and retention the Committee was advised of a number of factors which impacted on the current situation. Such factors included competing demands from the private sector and other public sector organisations and the complexities of local authority work, which was increasingly of a specialist nature. The increasing financial constraints in local government over recent years had resulted in a much-reduced number of staff in internal audit sections across the UK.

An indication was given of the Council's current recruitment process, which involved advertising in the local press and that of the North East region. In an attempt to alleviate the current difficulties Officers were continuing to examine the various options for providing the internal audit function.

In commenting on the Audit Plan 2007/2008 Members sought clarification a number of areas. It was confirmed that a significant amount of work was undertaken to ensure that there was a robust system of recovery and enforcement in respect of Council tax. It was reported that the overall level at which Council Tax arrears was written off was less than in previous years details of which could be provided.

Although legislation introduced in 2006 assisted local authorities in dealing with privately owned empty properties in disrepair it was acknowledged that it involved a lengthy legal process in recovering contributions from property owners towards the costs of securing premises. It was noted that there had been problems nationally in implementing the new legislation, which had only gone 'live' in June 2007.

**RECOMMENDED** as follows: -

1. That the Council's Internal Audit Strategy be noted.
2. That the Council's Annual Audit Plan for the financial year 2007/2008 be noted.