

## AUDIT COMMITTEE

A meeting of the Audit Committee was held on 25 June 2008.

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

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

**\*\* PRESENT BY INVITATION:**

Celia Craig, Director, Assurance & Advisory, Deloitte & Touche LLP  
G Gallagher (Chief Accountant, Mouchel Business Services).

**\*\* DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item / Nature of Interest
Councillor Taylor	Personal/Non Prejudicial	Any matters relating to Tees Valley Housing – an employee.

**\*\* MINUTES**

The minutes of the meetings of the Audit Committee held on 18 March and 27 May 2008 were taken as read and approved as a correct record.

**STATEMENT OF ACCOUNTS 2007/2008**

The Deputy Director of Resources presented a report regarding the draft Statement of Accounts 2007/08 a full copy of which had been provided in the Members' Resources Section and to the Committee within the prescribed format in accordance with current legislation and guidance.

Specific reference was made to the 2006 'Statement of Recommended Practice' (SORP) which had introduced significant changes to the content and format of the Statement of Accounts. The Committee's attention was drawn to the following subsequent changes: -

- a) the removal of the Fixed Asset Restatement Account and the Capital Financing Account;
- b) the new requirement to establish a Revaluation Reserve and a Capital Adjustment Account.

It was also confirmed that the 2007 SORP introduced new accounting requirements concerned with accounting for financial instruments in relation to such items as loans, guarantees and derivatives.

As part of the annual accounts process the Council had been required to review its system of internal controls and to publish a statement of such a review known as the Statement of Internal Control (SIC). The scope of the review had been extended to include the Council's wider governance arrangements as well as internal controls and required to publish an Annual Governance Statement (AGS).

Details were given of the Statement, the main components of which were as follows: -

Appendix A – Income and Expenditure Account, which provided the net cost for the year of all the functions/services for which the Authority was responsible and demonstrated how that cost had been financed from general government grants and income from local taxpayers;

Appendix B – Statement of Movement on the General Fund Balance which provided reconciliation between the statutory requirement for raising council tax and the technical accounting format of the Income and Expenditure Account;

Appendix C – Statement of Total Recognised Gains and Losses which summarised all the gains and losses on movements on the headings within the Balance Sheet together with the final balance on the Income and Expenditure Account to demonstrate the total movement in the Authority's net worth for the year;

Appendix D – Balance Sheet which detailed the value of assets owned by the Council, the level of creditors (amounts owed by the Council), the level of debtors (amounts owed to the Council) and the level of provisions and balances maintained by the Council;

Appendix E – Cash Flow Statement, which summarised the revenue and capital cash payments and cash receipts made by the Council to/and from third parties.

The Committee was advised of the following key areas and an indication given of the measures being pursued in order to mitigate the financial risks to the Authority: -

- a) Equal Pay
- b) FRS 17 & Net Pension Assets
- c) Efficiency Savings/Service Reviews.

It was noted that the Statement of Accounts 2007/2008 would still be subject to external audit by Deloitte which was expected to be concluded in August 2008 following which a further report would be presented to the Committee.

In order to assist Members in fulfilling their role as members of the Audit Committee confirmation was given of the ongoing development of the specific training programme to meet such needs.

The Deputy Director of Resources confirmed that further details would be provided on those specific areas identified by Members requiring a more detailed breakdown of information in relation to Council tax bands; potential clawback funding in respect of a West Middlesbrough Neighbourhood Trust grant; and review of surplus Council properties.

**RECOMMENDED** as follows: -

1. That the 2007/2008 draft Statement of Accounts be noted.
2. That the Officers concerned be thanked for their hard work.

## **INTERNAL AUDIT – ANNUAL REPORT 2007/2008**

In compliance with current legislation and best practice the Audit Manager presented the Internal Audit Annual Report for the financial year 2007/2008. 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.

It was reported that the Council had made improvements during the year to its corporate governance arrangements, which included the establishment of the Audit Committee, which assisted in raising the profile of internal control, risk management and financial reporting. The Audit Committee provided a forum for the consideration of issues raised by Internal and External Audit and completion of assurance statements by senior managers to support the Council's AGS.

Based on the work undertaken during the year as 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 discernible improvement had been made in the performance of Internal Audit in particular:

- all the key financial audits had either been completed or commenced prior to the end of the financial year, with the exception of Payroll and Capital;
- the time taken to prepare and audit the accounts of Community Councils and Community Centres had been reduced for the second year running;
- the time taken to audit a primary school had been reduced to an average of 10 days despite additional work to identify those areas where the school did not reach the Financial Management Standard;
- further progress had been made in the year to raise the profile of internal control and risk management by visiting establishments not subject to audit for some time.

The key issues for 2008/2009 were identified as follows: -

- Internal Audit continued to have vacant posts and relied upon agency staff to deliver the audit plan;
- it was confirmed that efforts would continue to recruit suitably qualified and experienced staff to deliver the audit plan;
- as Internal Audit made a significant contribution to the internal control 'key line of enquiry' part of the 'use of resources' category of the Council's CPA there was a challenge to improve the overall score;
- in order to objectively self assess the current position and performance of Internal Audit a review would be conducted to assess compliance against the CIPFA Code of Practice for Internal Audit in Local Government 2006;
- the standards and documentation of Internal Audit were to be reviewed to ensure continuing compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006.

**RECOMMENDED** as follows: -

1. That the Internal Audit Annual Report for the financial year 2007/2008 and the information provided be noted.
2. That the Officers concerned be thanked for their hard work.