

## AUDIT COMMITTEE

A meeting of the Audit Committee was held on 8 December 2008.

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

**OFFICIALS:** B Baldam, C Cleminson, S Harker and R Long.

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

**\*\* PRESENT BY INVITATION:** Councillor N J Walker.

### **\*\* 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 25 September 2008 were taken as read and approved as a correct record.

## **DRAFT REPORT TO THE AUDIT COMMITTEE ON THE 2007/2008 AUDIT - DELOITTE**

The Deputy Director of Finance presented a report on the 2007/2008 Audit carried out by Deloitte which had been presented to the Corporate Affairs Committee on 24 September 2008 along with the 2007/2008 Statement of Accounts.

The report summarised the principal matters that had arisen from the audit of the Council's financial statements for the year ended 31 March 2008 and on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

The External Auditor had identified the following key judgement areas as being critical to the 2007/2008 accounts:

- Revenue recognition (presumed risk in accordance with auditing standards).
- Management override of controls.
- Classification of reserves and provisions in accordance with FRS 12.
- Valuation of the equal pay reserve.
- Changes to the accounting framework and standards.
- Held for sale assets.
- Reconciliation of the Housing Benefit and Council Tax subsidies to the Statement of Accounts.
- Risk of overstatement of grant income claimed from central government.
- Valuation of community assets.
- Recoverability of debtors.

The Deputy Director of Finance referred to each key judgement area highlighting issues raised.

With regard to the management override of controls an issue had been identified regarding consultants who carried out high level maintenance of the SAP system. The consultants were based in Lincoln and were responsible for adding patches or upgrades to the system. The Auditors had suggested that a log should be kept of all the work carried out and this was now in place.

In response to guidance received from the District Auditor relating to the classification of reserves and provisions, three Earmarked reserves had been classified as reserves. Following advice from Deloitte, the Human Resources Initiative and Equal Pay Reserve, Building Schools for the Future Reserve and the Capital Grants Reserve had now been re-classified as provisions.

With reference to valuation and recoverability of debtors the Council did not concur with Deloitte's recommendation that it would be prudent to write off debts which were over six years old, as such debtors were highly unlikely to be recovered. Middlesbrough Council was still receiving payments for debts that were over six years old and in some cases had taken people to court. An example was given of Erimus Housing who kept records of past tenants. Any tenant re-applying to rent a property who had a previous outstanding debt would be requested to re-pay the debt due. Under this arrangement, Erimus would refer anyone who was a tenant prior to 2005, when Erimus took over, back to the Council for debt recovery.

There had been a technical change to the Fixed Asset Register so that community assets, such as parks and historical buildings, were now included. It was confirmed that this was part of the process for the Council to move to international reporting standards which had to be in place by April 2010. There were a large number of community assets and a valuation process was being undertaken by the Council.

No other significant issues were identified from the key judgement areas covered in the External Auditor's report.

Other areas considered by the External Auditor and detailed in the submitted report included:

- Financial Standing.
- Accounting and Internal Control Systems.
- Corporate Governance Review.
- Value for Money (VFM) Conclusion.

The External Auditor's assessment and conclusion in terms of the Council's financial standing was that it was satisfactory. Accounting and Internal Control Systems were effective and had met the required standard. The Annual Governance Review included all appropriate disclosures and was consistent with the Council's governance arrangements. A more detailed evaluation of Value for Money would be undertaken as part of the Use of Resources Assessment, however no issues had been identified.

**AGREED** that the contents of the report be noted.

## **REVIEW OF RISK MANAGEMENT STRATEGY**

The Senior Corporate Performance Officer presented an overview of the updated Risk Management Strategy. A draft revised Risk Management Strategy was included at Appendix 1 to the submitted report.

Nationally recognised good practice and Audit Commission Key Lines of Enquiry criteria required that risk management strategies were reviewed annually. The 2008 annual review of the Council's Risk Management Strategy had taken place and the processes and documentation had been updated. The annual update had taken into account the Audit Commission Revised Key Lines of Enquiry for Use of Resources 2009 and the SOLACE/CIPFA 'Delivering Good Governance in Local Government' guidance.

The proposed changes were minor, with the majority relating to:

- Explicit instructions regarding the approval process for rare cases where risks remained high, despite the best control measures being put in place.
- Additional guidance relating to low-probability risks with potentially high impacts.
- Updates of dates and terminology.
- Strengthened wording to emphasise alignment with recognised best practice.

There was no change to the Council's risk management philosophy or fundamental approach.

**AGREED** that the contents of the report be noted.