

## AUDIT COMMITTEE

A meeting of the Audit Committee was held on 27 May 2009.

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

**OFFICERS:** B Baldam, M Braithwaite, C Davies, S Harker and D Robinson.

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

**\*\*ALSO IN ATTENDANCE:** C Craig, Director, Assurance and Advisory, Deloitte.

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

### **\*\* 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 11 March 2009 were taken as read and approved as a correct record.

## **AUDIT COMMISSION – AUDIT AND INSPECTION LETTER 2008**

Members were presented with a joint report from the Audit Commission and Deloitte, the Council's External Auditors. The Annual Audit and Inspection Letter, covering the financial year 2007/2008 and received in March 2009 was attached to the submitted report. The Letter summarised the conclusions and significant issues arising from the 2007/2008 audit and inspection work at Middlesbrough Council.

The Audit and Inspection Letter included key messages in relation to Council performance and accounts and governance. In particular it provided details relating to the Council's Comprehensive Performance Assessment (CPA) 2008 score including the Use of Resources judgements. The Letter also identified actions that needed to be taken by the Council.

The letter reported on the Council's account, whether the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion), and whether the Council's best value performance plan had been prepared and published in line with legislation and statutory guidance. The requirements of the Best Value Performance Plan were incorporated within the Council's Strategic Plan.

The key messages highlighted in the annual Audit and Inspection Letter were:

- Middlesbrough Council was improving strongly and classified as 'four-star' in its current level of performance. There had been continued improvements in the accessibility and quality of services for local people, and the Council was making progress against all of its seven strategic priorities.
- The Council had been awarded Beacon Status in 2007 for its approach to tackling climate change.
- The Council had taken early steps to monitor the changing environment in relation to the recent economic downturn and put in place measures to minimise its impact as far as possible.
- The Council had improved on its Use of Resources scores. A level 4 overall assessment had been awarded due to the continued improvements in financial management and financial standing.

Further actions that needed to be taken by the Council were highlighted as follows:

- Maintain a strong, year-round focus on those areas highlighted in the Annual Performance Assessment of Services for Children and Young People, in particular the pace of progress

against the plans to address areas for development in the Staying Safe outcome which were identified in both 2007 and 2008;

- Continue to work with partners to address the aspects of fear of crime which have failed to improve or have deteriorated; and
- Continue to work locally, in partnership across the Tees Valley and the wider region to address the risks posed by the economic downturn.

The Audit Commission's overall judgement was that Middlesbrough Council was improving strongly and was classified as four star in its current level of performance under the Comprehensive Performance Assessment. Services were improving in most priority areas.

Deloitte had produced an Audit Report providing an unqualified opinion on the Council's accounts and a conclusion on the value for money arrangements stating that these arrangements were adequate and the whole of government accounts submission was consistent with the audited accounts. Deloitte had not identified any fundamental weaknesses in the financial and accounting system in the context of the accounts approval process.

It was highlighted that the approach for use of resources going forward had changed. There was a different methodology for some of the areas covered and there was an expectation that future scores would be lower. This decrease in scores was expected to be reflected nationally.

Deloitte wished to place on record their thanks to the Deputy Director of Resources and his team for their assistance in completing the audit.

**RECOMMENDED** that the Audit and Inspection Letter 2008 be noted.

#### **DELOITTE – AUDIT PLAN 2009/2010**

The Audit Plan 2009/2010 was presented to the Committee. The approach to the Plan had changed slightly this year as it was now solely an Audit Plan and not also an inspection plan. The Council's External Auditor, Deloitte, had identified a number of risks in relation to value for money. For each risk, the Auditor will consider the arrangements put in place by the Council to mitigate the risk, and work was planned accordingly. The Auditor reserved the right to carry out more detailed work if any concerns were identified. The initial risk assessment for the value for money audit work was shown at Appendix 1 to the submitted report.

The agreed Audit Plan 2009/2010 summarised the significant risks faced by the Council. It was similar to the Council's own assessment of the main strategic risks and the planned work will provide reassurance that the Council was actively managing these risks. There would be an opportunity to review the risks with the External Auditor during the year.

An area of particular focus for the External Auditor this year would be the maintenance of data quality and detailed work on benchmarking and what benefits could be achieved by the use of benchmarking. Terms of Reference relative to the scope of this work would be produced.

It was highlighted that the approach to the fee had also changed this year. The Audit Commission used a formula to calculate a scaled fee relative to the gross expenditure of the Authority. Using this formula, the fee for 2009/2010 had increased above inflation. In order to justify the increase the External Auditor would include the detailed work on benchmarking in the fee and therefore add value for money.

**RECOMMENDED** that the Deloitte Audit Plan 2009/2010 be noted.

#### **ANNUAL GOVERNANCE STATEMENT 2008/2009**

The Deputy Director of Resources presented a report on the Annual Governance Statement 2008/2009. A copy of the full Annual Governance Statement was attached to the submitted report at Appendix A.

Under the Framework for Delivering Corporate Governance in Local Government the Council was required to undertake regular, and at least annual, reviews of their governance

arrangements to ensure continued compliance with best practice. The Council had established a Corporate Governance Team responsible for managing the process by which the annual review of corporate governance was conducted.

The Annual Governance Statement was compiled following a review by the Governance Team of the effectiveness of the Council's systems of internal control and governance arrangements. This involved the most senior Officers within Services, as well as Officers with specific responsibilities for Internal Audit, Risk Management and the professional conduct of Officers and Members. The statement related to the governance arrangements as applied during the 2008/2009 financial year. Significant events or developments that occurred after this year could also be included.

The Statement of Recommended Practices (SORP) 2006 that local authorities were required to adhere to in the compilation of their accounts, extended the scope of the annual governance review to cover relationships with organisations where the control/involvement by the Council was significant. Organisations identified under these arrangements included CADCAM and the Hustler Playing Fields Trust. Both organisations had completed a Service Assurance Statement for 2008/2009 and neither had identified any issues that needed to be reported separately in the Annual Governance Statement.

With regard to training the Council had achieved Corporate Investors in People (IIP). A Business Development Whole Life Costings Course for Officers had been developed which linked to the national agenda on sustainability. The Course had started in March 2009 and would assist Officers when bidding for grant claims and costing developments going forward. Whole Life Cost related to assessing a product for value for money over its lifetime, rather than just the initial purchase cost. Middlesbrough Procurement Team had developed a process to incorporate sustainability as well as the economic, social or environmental value of the product when making a decision to purchase.

As in the previous year, the Council's partnership arrangements were reviewed using the partnership matrix provided in the framework guidance, to identify which were key to its operation and which were minor. The key partnerships for Middlesbrough Council and the criteria used to review the partnerships were summarised in the submitted report. The key partnerships had now been placed into four categories of Contractual, Strategic, Partnerships Delivering Major Projects and Delivery Partners.

The Local Strategic Partnership was reviewed during 2008/2009 to ensure that the partnerships was fit for purpose and able to respond to the implications arising from the Local Government White Paper – "Strong and Prosperous Communities". The review incorporated guidance within the Audit Commission report "Governing Partnerships – Bridging the Accountability Gap (October 2005)". This outlined the aspects of good partnership governance that should be present within the Partnership. The review was concluded in Autumn 2008 and led to a number of changes in the structure of the Partnership and the way it performed its functions, to ensure that the partnership was able to respond to the strategic agenda.

An initial review had been undertaken of representation on Outside Bodies using the Members' register as the basis. The responses received as part of the review were assessed using a similar matrix to that used to evaluate the Council's strategic partnerships. The criteria used to review the Outside Bodies was detailed in the submitted report with a schedule of findings from the initial review shown at Appendix B. The Committee was requested to approve the criteria for the continuing review. Not all responses had been received to date and officers would continue the review using the Outside Bodies matrix during 2009/2010. The results would be reported to the Corporate Affairs Committee later in the year for a decision.

The Council had implemented a number of other developments designed to ensure improvements in risk management, performance, financial management and governance which were detailed in the submitted report. The Standards Committee continued to contribute to the improvement of the control environment within the Council by considering key items.

Members were requested to note the 'Significant Internal Control Issues' which had been raised in the 2007/2008 Statement and the actions taken during 2008/2009 to address them. In

addition areas of concern that had arisen during 2008/2009 had been highlighted along with the action plans in place to address them and details were given in the submitted report.

**RECOMMENDED** as follows that the:

1. Annual Governance Statement 2008/2009 be received and noted.
2. Criteria for the continuing Outside Bodies Review set out at paragraph 14 of the submitted report be approved.
3. Reported Internal Control Issues Section within the Statement and summarised in paragraph 20 of the submitted report be noted.

#### **INTERNAL AUDIT ANNUAL REPORT FOR FINANCIAL YEAR 2008/2009**

The Audit Manager presented the Internal Audit Annual Report for the Financial Year 2008/2009. 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. The report was a key component of the assurance framework. Its purpose was to inform Members of the work of the Internal Audit Section for the financial year 2008/2009; provide performance information and draw attention to any matters of interest.

All Internal Audit Work was undertaken in compliance with the processes set out in CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the CIPFA Code). This included the planning, resourcing, recording, reviewing and reporting of audits and other reviews.

The system of internal control supported the achievement of the Council's aims and objectives whilst safeguarding public funds and its assets. It was designed to manage risks to a reasonable level, rather than to eliminate them completely. Internal Audit and other assurance processes could therefore only provide within the Statement of Control, reasonable, and not absolute, assurance of adequacy and effectiveness.

The Audit Committee helped raise the profile of internal control, risk management and financial reporting issues and 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 Annual Governance Statement (AGS).

It had been a challenging year for Internal Audit as there had been a number of unplanned absences that had impacted on its work. Originally around 180 audits were planned but this had been reduced to approximately 150 due to reflect the resources available. At 31 March 2009, 81% of audits were either completed or in progress. Since the year-end draft reports and audit opinions had been prepared for the majority of outstanding audits.

Summaries of the final out-turn position for 2008/2009 against the original plan by activity, Directorate and other work of the Internal Audit Section, and the audit work undertaken were provided in the submitted report.

Based on the work undertaken during the year reported on, and the implementation by management of the majority of the recommendations made, Internal Audit provided substantial assurance that the systems of internal control within these areas of the Council were operating adequately and effectively. There were no areas for continuing action that required inclusion in the Annual Governance Statement.

The Internal Audit Service's main objective was to consolidate the gains made in 2008/2009 and continue to deliver service improvements. Greater focus would be directed at reviewing pressures on the internal control environment arising out of the economic climate and 'credit crunch'.

**RECOMMENDED** that the Internal Audit Annual Report for the Financial Year 2008/2009 and outcome of Internal Audit's work for 2008/2009 be received and noted.