

**AUDIT COMMITTEE**

A meeting of the Audit Committee was held on 16 February 2010.

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

**OFFICERS:** B Baldam, C Davies, S Harker, R Long and D Robinson.

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

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

**\*\* DECLARATIONS OF INTEREST**

There were no declarations of interest at this point in the meeting.

**\*\* MINUTES**

The minutes of the meeting of the Audit Committee held on 22 December 2009 were taken as read and approved as a correct record.

**AUDIT COMMISSION – ANNUAL AUDIT LETTER**

Members were presented with a joint report from the Director of Resources and Deloitte, the Council's External Auditors. The Annual Audit Letter for 2008/2009 was attached to the submitted report. The Letter summarised the conclusions and significant issues arising from the 2008/2009 audit and inspection work at Middlesbrough Council. The Annual Audit Letter included key messages in relation to Council accounts and governance and provided details relating to the Council's Comprehensive Performance Assessment (CPA) score including the Use of Resources (UoR) judgements. There were no key issues and the actions within the key messages were around highlighting progress on ongoing projects.

The Annual Audit Letter identified actions that needed to be taken by the Council as follows:

- Continue to focus on meeting the reporting timetable, whilst striving to further improve the quality standards of all deliverables and ensuring compliance with the applicable guidance.
- Consider appropriate action in respect of the control observations raised in the report to those charged with governance.
- Monitor progress in the areas for potential development highlighted in the Use of Resources feedback; and
- Continue to focus on International Financial Reporting Standards implementation to ensure that the required timescales were met.

The Statement of Accounts were closed and prepared in accordance with the agreed timetable. The Council maintained a high quality of financial reporting. However, material amendments were made to the financial position and a small number of presentation and disclosure amendments were also made. No material weaknesses were identified in the financial reporting systems and control observations were reported to the Corporate Affairs Committee on 23 September 2009 as part of the report on significant matters arising from the audit.

An unqualified value for money conclusion for the 2008/2009 year was issued indicating that the Auditors were satisfied that the Council had proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources during the year.

The Council scored 3 for Use of Resources (UoR) which indicated that it was performing well. However it was noted that the score had reduced from 4 to 3 since the last audit. The External Auditor explained that there had been a change in methodology and the UoR assessment had been made more demanding than previous assessments. The key lines of enquiry (KLOE) were more broadly based than previously and focussed more on value for money achievements, outputs and outcomes rather than on processes. Nationally, the majority of local authorities had moved to a 3 and Middlesbrough compared extremely well with other authorities.

Middlesbrough had however achieved a 4 for Managing Resources and this was based on the impact and progress made following on from Use of Natural Resources - Beacon Status. Middlesbrough had many initiatives in place with regard to managing the Authority's resources and had been successful in bringing in additional funding from Government.

A separate report on UoR had been issued in draft summarising the detailed KLOE assessments and areas for development. The report would be presented at a future meeting of the Audit Committee. Initiatives were already ongoing to address areas of potential improvement identified during the assessment so that the Council would be in a strong position to demonstrate improved arrangements and outcomes during 2009/2010.

It was highlighted that the Council would be required to prepare International Financial Reporting Standards (IFRS) compliant accounts for the year ending March 2011 and therefore comparative IFRS balances for the year from 1 April 2009 to 31 March 2010. The Whole of Government Accounts return for 2009/2010 would also be required to be re-submitted under IFRS. An Audit Commission return on the Council's state of readiness for IFRS had recently been completed and concluded that the Council was on track. However, there remained some significant challenges ahead in particular areas, for example, leasing and holiday accruals. Deloitte would continue to work closely with the Council to assess progress against the required timescales.

It was noted that the total fees from the External Auditor had increased from £217,200 to £314,886. The External Auditor explained that the fees in relation to the certification of grant claims and returns had increased as a result of additional work on the Benefits Subsidy Claim. The External Auditor was required to follow the HB Count Methodology agreed between the Audit Commission and the Department for Work and Pensions. This had led to a huge increase in the amount of testing required on each claim.

The overall fees were calculated on a set scale devised by the Audit Commission from a formula based on the Council's Net Revenue Expenditure. Although a discount had been applied from Deloitte in previous years, following legal advice, the Audit Commission had declared that it was inappropriate for the External Auditor to set its own fee. Deloitte would provide some additional work on benchmarking to ensure that Middlesbrough received value for money for the fees imposed.

Overall the Annual Audit Letter was very positive. The Committee acknowledged the overall improvement made by Middlesbrough in the Use of Resources. Deloitte wished to place on record their thanks to the Director of Resources and his team for their assistance in completing the audit.

**RECOMMENDED** that the Annual Audit Letter 2009 be noted.

## **AUDIT PLAN 2009-2010 PROGRESS REPORT**

The Audit Manager presented two Internal Audit Plan 2009-2010 Progress Reports for the periods ended 30 September and 31 December 2009. The purpose of the reports was to inform the Committee of the status of the internal audit work completed in respect of the internal audit plan for 2009/2010 and the key themes arising.

### **1 July –30 September 2009**

Performance up to 30 September 2009 against the agreed audit plan was detailed in the report. The actual number of audit days delivered on assurance work and ad-hoc investigations was 6.5% higher than the planned total. The internal audit plan for 2009/2010 was attached at Appendix A to the submitted report and recorded the current status of the internal audit assignments.

Final reports had been issued for audits on Connexions and Commissioning Social Care, which had been carried over from the 2008/2009 audit programme. Details of final reports from the 2009/2010 audit programme that had been issued and a summary of the findings was included at Appendix B to the submitted report.

In addition to planned audits, a total of 18 days was spent giving advice to Services on various ad-hoc topics. Unplanned work at the request of Services had also been undertaken and the Audit Manager provided further details of investigations. Two planned audits had produced audit opinions that fell below substantial assurance. Recommendations had been made to ensure that appropriate procedures were in place and adhered to.

### **1 October-31 December 2009**

Performance up to 31 December 2009 against the agreed audit plan was detailed in the report. The actual number of audit days delivered on assurance work and ad-hoc investigations was 5.6% higher than the planned total.

Final reports had been issued for audits carried over from the 2008/2009 audit programme relating to Housing and Council Tax Benefits and Albert Park. Details of final reports from the 2009/2010 audit programme that had been issued and a summary of the findings was included at Appendix B to the submitted report.

In addition to planned audits, a total of 4.5 days was spent providing advice to Services on various ad-hoc topics. Additional unplanned work had also been undertaken at the request of several Services and details were given in the submitted report. This work represented a significant increase in time charged against the contingency budget. The actual time spent on investigations and unplanned work was now 6 days over the pro rata number of days budgeted for the third quarter. It was not anticipated that this would be pulled back in the final quarter of the year.

Also, the actual days spent on other planned audits had exceeded the original budget time allocation. An analysis of the audits that had exceeded the original budgeted time allocation had identified the following causes:

- additional work arising from audit findings
- additional work to assist Services in implementing audit recommendations
- additional work due to changes in scope part way through the audit
- initial planned allocation insufficient to complete the audit programme.

The combined impact of the increased unplanned work and audits exceeding the plan meant that the planned programme of work for 2009/2010 would not be completed by the year-end. Priority was being given to ensuring completion of the audits of key financial systems to meet the External Auditor's requirements.

It was highlighted that in the fourth quarter the Internal Audit Section would lose the services of both the Deputy Internal Audit Manager and a Senior Auditor. The Deputy Audit Manager had left the Council to take up another post and the Senior Auditor was to commence a period of maternity leave.

**RECOMMENDED** that the Audit Plan 2009/2010 Progress Report for the periods ended 30 September and 31 December 2009 be noted.

## **REVIEW OF AUDIT COMMITTEE**

The Members' Office Manager presented a report to seek Members' views on the form and function of the Audit Committee for the year 2010-2011.

To date, the Audit Committee had worked on a fairly narrow remit primarily involved in the consideration of technical and financial matters. It was acknowledged that the role of the Audit Committee needed to be widened in order to encompass a broad definition of the term 'audit' and recognise that it was about minimising risk, ensuring sound systems and underpinning the framework to ensure good practice and procedures and thereby, good Corporate Governance. In order to progress this development, a number of considerations needed to be taken into account, agreed by the Committee and submitted to Constitution Committee for consideration.

Committee Members discussed the matters for consideration presented by the Members' Office Manager.

**RECOMMENDED** as follows that:

1. the Audit Committee be renamed the Audit and Governance Committee.
2. the Membership of the Audit and Governance Committee be increased to seven Elected Members.
3. up to two independent (non-elected) members, with no voting rights, be included in the Membership of the Audit and Governance Committee.
4. the Elected Membership of the Audit and Governance Committee would comprise non-Executive Members only.
5. appointments to the Audit and Governance Committee would be of four years duration, or up until the next Council elections, renewable on an annual basis.
6. meetings of the Audit and Governance Committee would take place six times per year.
7. the remit and terms of reference would include Corporate Governance, Risk Management, Diversity, Business Continuity Planning and ensuring that effective systems were in place to underpin the broader systems and processes of the Council.
8. the Audit and Governance Committee would receive a variety of reports and other evidence, undertake investigations and produce a report to Council, Corporate Affairs or Executive as appropriate.
9. a role profile for the Chair of the Audit and Governance Committee would be developed and included in the Council's Constitution.
10. a Forward Work Plan would be produced to annually to ensure that all directorates were subject to consideration by the Audit and Governance Committee.
11. in addition to ongoing training, induction training would be provided for all new Committee Members.
12. Guides for Members and Officers supporting the Committee, in relation to the main areas of work, would be produced.
13. consideration would be given to Officer support to the Committee.
14. the proposed remit and terms of reference for the Audit and Governance Committee would be submitted to the next meeting of the Audit Committee.
15. the Members' Office Manager would produce a report in relation to the proposed remit and terms of reference for the Audit and Governance Committee for submission to Constitution Committee for consideration and approval.