

AUDIT COMMITTEE

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

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

OFFICERS: B Baldam, J Bennington, C Cleminson, R G Long and D Robinson.

**** PRESENT BY INVITATION:** Councillor N J Walker, Executive Member for Resources.

**** 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 16 February 2010 were submitted and approved as a correct record.

RISK MANAGEMENT STRATEGY ANNUAL REVIEW 2009/2010

The Senior Corporate Performance Officer presented a report which provided an update on ongoing strategic risk management arrangements including the annual review of the Council's Risk Management Strategy, a copy of which was provided at Appendix 1 of the report submitted.

In accordance with nationally recognised good practice the 2009/2010 annual review of risk management had been undertaken and the strategy document updated. Such an update had taken into account the Audit Commission's Revised Key Lines of Enquiry for Use of Resources 2009 and the International Standardisation Organisation's 2009 ISO 3100 – Principles and Guidelines on Risk Management.

The Committee was advised of minor changes to the Strategy the majority of which related to: -

- a) updates of dates and terminology;
- b) strengthened wording to emphasise alignment with recognised best practice;
- c) additional detail relating to risk management arrangements for partnership working;
- d) inclusion of financial management roles within Risk Management 'Roles and Responsibilities' matrix.

It was confirmed that the annual review had also included the strengthening of the guidance to staff within the Risk Management Toolkit (version 5) a copy of which was provided in Appendix 1 of the report submitted. Such a document now provided more detailed information relating to risk scoring with more examples quoted to increase a better understanding.

In terms of embedding the Risk Strategy an assurance was given that the Council's approach to risk management was fully integrated into the performance management framework and was central to the policy making framework with all reports to the Executive requiring an appropriate option appraisal/risk assessment.

Details were provided of risk management corporate support and training activities and accredited in-depth training for Departmental Risk Champions.

The success of the Risk Management Strategy was measured by means of the following:

Achievement of at least 85% of the planned actions set out in the Strategic Plan and achievement of at least Level 3 for the CAA Use of Resources assessment. It was reported that the 2009 CAA report had given the section, which included risk management practices (2.4) a score of 'Good', 3 out of 4.

The highest scoring risks currently shown on the Council's Corporate Strategic Risk register were reported as follows: -

- a) National (or global) recession affects the economic vitality and well-being of Middlesbrough.
- b) The Council is unable to secure long-term economic vitality of Middlesbrough.
- c) Disruption of the Council's workforce is caused by large-scale loss of staff (for example due to pandemic flu) affecting the ability to deliver key services.
- d) The Council's resources may not match the demands arising from the national Equal Pay claims process and outcome.
- e) Realistic and robust proposals to fund the financing gap cannot be provided.
- f) The Council's Building Schools for the Future project is not delivered on time or to budget or fails to secure educational benefits.
- g) Failure to implement correct policy or processes results in the death of a child or significant child protection concerns.

Key influences, which had impacted on strategic risks during 2009/2010 and were being monitored and addressed included: -

- i) The 'mothballing' of the Corus plant at Redcar, subsequent rises in unemployment and detriment to the Town's economic vitality.
- ii) The international swine flu pandemic which, although not as severe as first predicted, resulted in increased staff absence rates for several months.
- iii) Increased financial pressure upon local authorities nationally.
- iv) Continued national high profile and levels of concern regarding child protection and safeguarding issues.

Middlesbrough Partnership had adopted risk management processes based on those of the Council, with risks identified for all the Sustainable Community Strategy Themes and continued to manage, monitor and report such risks.

Members sought clarification on a number of areas including the methods used in determining what is low, medium or high risk. In response, the Committee's attention was drawn to the Council's Risk Management Strategy with particular regard to the scoring of the risks identified. Risks were scored by identifying the likelihood of the event occurring and multiplying this by a factor representing the impact or consequences of the event if it did occur. The Council used a 5 x 5 matrix to score such risks. The impact scores were weighted to differentiate between the significant changes in impact between 'moderate', 'major' and 'extreme' risks.

The Committee commented on possible external major risks which were difficult to predict and less out of the control of individual authorities such as the collapse of major banks. An assurance was given that processes were in place to enable recognition when such circumstances were affecting the business of the Council and triggered the need to take the necessary action.

Specific reference was made to page 15 of the Council's Risk Management Strategy under the heading of 'Stage 3: Scoring Risks'. Whilst it was recognised that the list to be used when considering the impact when determining the risk scores was not in order of priority Members suggested that the factors of 'health and safety of employees, residents or service users' and 'ability to deliver services' should appear at the top of such a list.

The Committee discussed Business Continuity Plans and in particular referred to the extent to which the Council was involved with school plans. It was explained that Business Continuity Plans were at different levels. Examples were given such as that of a closure of a school which would involve the LEA in identifying alternative accommodation. By way of comparison, another example was given such as the likely impacts arising from a pandemic flu which were sufficiently different to warrant a specific plan hence the Council had developed a Flu Pandemic Plan.

A Member sought clarification in relation to circumstances of fraud and taking of goods. The Committee was advised that not all risks were listed in the Council's Risk Management Strategy but it provided an overview of the processes to be followed in order to manage such risks.

RECOMMENDED as follows: -

1. That the report and information provided be noted.
2. That the updated Council's Risk Management Strategy (version 5) be noted.

INTERNAL AUDIT PLAN 2010/2011

In a report of the Audit Manager and following a review of the Internal Audit Strategy (Appendix A) in accordance with best practice and prevailing legislation the Audit Manager outlined a plan of work to be completed by Internal Audit as part of the Internal Audit Plan 2010/2011.

The plan had been based upon Internal Audit's assessment of the Council's audit need and designed to provide the Committee with assurance that the Council's framework of internal control was effective and supported the Committee's review of the Annual Governance Statement.

The review of the Internal Audit Strategy had shown that it remained consistent with Internal Audit objectives and the sections in respect of Resources and Skills had been updated to reflect the budget savings.

In order to ensure that limited audit resources were used effectively best practice dictated that they were focused on areas that represented the greatest risk to the Authority. The scope of the Internal Audit coverage had been determined having regard to the following: -

- a) the content of Corporate and Service risk registers;
- b) listing of key critical services (and associated IT system) defined to assist Business Continuity Management Planning;
- c) the outcome of discussions with Heads of Service in order to understand new service initiatives, the impact of changes to legislation and discuss service specific operational risks and issues;
- d) the Internal Audit Section's own views on areas of material risk not identified by other means;
- e) previous audit plans;
- f) recent issues from other public sector organisations.

A risk level had been identified for each area included in the plan. 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 management process as well as the results of previous audits and changes introduced by services to enhance internal controls.

Should it prove necessary to revise the plan in order to ensure that it continued to focus on areas of control it was confirmed that any changes would be discussed and reported in line with agreed protocols.

The Committee considered the proposed Audit Plan for 2010/2011 a copy of which was provided in Appendix B of the report submitted. The Plan contained audits to ensure that sufficient work was undertaken to enable production of an opinion about the adequacy and effectiveness of governance, risk and internal control.

Details were provided as to how resources had been allocated in order to deliver the Audit Strategy. Completion of the Audit Plan was subject to adequate and appropriate resources being available throughout the year.

Regular summary reports on the outcomes of audits undertaken would be provided to the Committee in order to determine progress against the Internal Audit Plan. It was also confirmed

that revisions to the plan as a result of unforeseen work, vacancies and sickness would be reported to the Committee as part of the quarterly update report.

The Audit Manager highlighted several items in the Plan in each service area and indicated the risk category, number of days and the proposed scope and coverage of the audit. It was noted that some assignments were undertaken on a cyclical basis, some were in response to management requests, and others were follow-ups to ensure that previous recommendations had been implemented.

In response to clarification sought from Members it was confirmed that as part of the consultation process in reviewing the Internal Audit Strategy discussions were held with Heads of Service to cover areas such as new service initiatives, impact of changes to legislation and specific operational issues. It was also confirmed that discussions took place with the Council's external auditors as part of the overall process, which assisted in avoiding duplication of work.

The Committee's attention was drawn to changes in relation to Social Care. Given the review and significant changes to the Home Care service next year it had been removed from the plan and replaced with the Registrars Service and Putting People First programme.

Members discussed the current staffing situation and noted the ongoing recruitment and retention problems in the Audit Section, which had resulted in the need for additional resources for contracted staff to cover the necessary work. It was noted that the service was facing competition not just from the Tees Valley but also areas such as Leeds and Newcastle. Consequently the Council had been working jointly with other local authorities with a view to alleviating the situation.

RECOMMENDED that the Audit Strategy and Annual Plan for the financial year 2010/2011 be approved.

INTERNAL AUDIT JOINT WORKING – REDCAR AND CLEVELAND

The Deputy Director of Resources reported that owing to a change of circumstances and since the business case had not yet been completed it had proved necessary to withdraw the intended report concerning Internal Audit Joint Working with Redcar and Cleveland Council.

NOTED AND APPROVED