

STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE MINUTES

Date: Tuesday 10 June 2008

Time: 6.00 p.m.

Place: Shimkent Room, Daneshill House, Danestrete, Stevenage

Present: R. Raynor (Chair), J. Gardner (Vice Chair), J. Hollywell, Margaret Notley (left at 7.35)
Independent: Brian Mitchell

Agenda Item: **15**

In Attendance: Debbie Hanson, Mark Hodgson and Penny Irwin (Audit Commission), Stewart Gilies (Standards Committee)

Start/End Time: Start Time: 6.00 p.m.
End Time: 8.45pm

1 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

Apologies were submitted on behalf of Councillor R. A. Clark.

There were no declarations of interest.

2 MINUTES

The Minutes of the meeting of the Audit Committee held on Monday, 17th March 2008, having been circulated, were taken as read and it was **RESOLVED** that they be signed as a correct record subject to an amendment to the date on item 6 which should read September 2007.

The Chair thanked the Head of Finance for the valuable training she had provided to Members around the Statement of Accounts.

3 TERMS OF REFERENCE

The Terms of Reference for the committee were noted and agreed by members that paragraph 3(e) should be amended to read Annual Governance Statement instead of Statement of Internal Control.

4 ANNUAL AUDIT AND INSPECTION LETTER

The Strategic Director (Resources) submitted a report advising Members of the annual Audit Commission's Audit and Inspection Letter 2006/07. The Letter is an annual requirement for the Audit Commission to report on the Council's financial, legal and management arrangements. Debbie Hanson from the Audit Commission gave an introduction to the report from the Commission's own perspective and summarised it as follows:

- The Council was improving its services in many priority areas with overall performance, as measured by a sample of performance indicators, above the district council average.
- The Council was providing strong community leadership and a commitment to partnership working to deliver community outcomes. Community consultation was a strength.
- The Council had the capacity to deliver its plans. Effective processes for financial and performance management were in place at both strategic and operational level. The Council's plans enable focus on the delivery of priorities and were effectively linked to ensure resources were allocated in accordance with key objectives.
- The Council's overall score for Use of Resources fell from three (performing well) to two (performing adequately). This was the result of a change in scoring rules which gave extra weight to the quality of the Council's accounts and supporting working papers.
- It was noted that the quality of the Council's 2006/07 accounts and working papers was below the minimum standard. During 2006/07, the Council faced staffing and workload challenges which affected its ability to produce good quality accounts. A number of amendments had to be made to the accounts in order for an unqualified audit opinion to be issued.
- The Council's medium term financial strategy forecasts available reserves being used up by 2009/10. After this date, a substantial level of savings would need to be found in order to balance the budget and build up reserves.
- There had been a number of changes to the Internal Audit section in the last year and the section had been unable to deliver its 2007/08 audit plan.
- Stevenage Homes Ltd, which was set up by the Council in 2006 to manage its housing stock, was assessed by the Audit Commission inspection last year as providing poor services but with promising prospects of improvement. In order to access funding to improve the housing stock it would need to be assessed as providing good services at the next inspection.

The following actions were identified by the Audit Commission, to be monitored by Members:

- improve the quality of the accounts, working papers and capital accounting to ensure that the accounts complied with the new accounting requirements in future years;

- develop the medium term financial strategy and achieve the necessary savings in order to set a balanced budget in future years and build up reserves;
- strengthen the management and effectiveness of Internal Audit to ensure timely delivery of the agreed Internal Audit programme in future years; and enable SHL to meet the 'two-star' standard at the next inspection.

Officers assured the Committee that a number of things were in place to address the above actions including:

- Experienced staff had now been recruited to the Head of Finance and Chief Internal Auditor roles.
- Substantial changes to working papers had been introduced.
- The capital accounting processes had been strengthened.
- A budget action plan had been agreed.
- Asset management procedures were being addressed

It was RESOLVED that the Audit Commission's Audit and Inspection Letter 2006/07 be noted.

5 ANNUAL GOVERNANCE STATEMENT 2007/08

The Former Interim Head of Finance presented the proposed Annual Governance Statement for consideration before its inclusion in the 2007/08 Statement of Accounts. Members were informed that the Governance Statement had replaced the previous Statement on Internal Control. The Governance Statement explained the background to the overall assurance and governance arrangements operating within the council. It reviewed the effectiveness of these arrangements and recommended areas of improvement for further strengthening in its governance and assurance procedures.

The report reassured the committee of the Council's existing good business practices, high standards of conduct and sound governance arrangements. The Governance Framework included a number of key processes:

- Establishing and monitoring the achievement of objectives
- The facilitation of policy and decision-making
- Compliance with policies, procedures, laws and regulations
- Receiving and investigating complaints from the public
- Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation
- Incorporating good governance arrangements in respect of partnerships and reflecting these in the Council's overall governance arrangements
- Risk management
- Developing, communicating and embedding codes of conduct detailing the standards of behaviour for members and officers
- Internal audit arrangements

- Audit Committee
- Ensuring economic, efficient and effective use of resources
- Financial management
- Performance management
- Review Of effectiveness of systems of Internal Audit
- Review of the overall effectiveness of the Council governance arrangements

In order to assist with supporting the Annual Governance Statement and the assurance process, for the first time, all Heads of Service completed, certified and returned a Service Based Governance Statement. This was a requirement under the CIPFA/SOLACE Framework. To complete the Service Based Governance Statement, Heads were required to:

- assess how effectively the control environment operated during 2007/08 in respect of the service areas for which they had responsibility.
- review the operation of the Council's system of internal control, within their service area, including risk management, score and supply evidence against each responsibility.
- identify risk areas/areas for improvement and related planned actions for improvement.

Some governance issues requiring improvement were highlighted with required actions and completion dates.

Members sought clarification and requested some minor amendments on issues such as the Code of Conduct for Member and officers. Also to include the Standards Committee on the list in Appendix 4 - The Framework for Compiling the Annual Governance Statement.

Members were informed that with this new arrangement the Annual Governance Statement would have to be signed off by both the Leader and Chief Executive.

Members were pleased for to receive the report and were satisfied that the report was of use both internally for officers and members and also externally to partner organisations and other interested parties. Members expressed their thanks to officers for a thoroughly comprehensive report.

It was RESOLVED that the Annual Governance Statement be recommended to the next meeting of the Audit Committee subject to the inclusion of the amendments proposed by the Committee .The revised document to be included in the Statement of Accounts to be presented at the next Audit Committee.

6 ANNUAL REPORT ON INTERNAL AUDIT 2007/08

The Former Interim Head of Finance presented a report which covered the following areas :

- year end position comparing actual audit work undertaken with the 2007/08 annual internal audit plan
- The format and content of reports produced

- The status of reports issued during the financial year
- work undertaken not resulting in a report being issued
- performance against indicators included in the Service Plan
- opinion of the Chief Internal Auditor based on results from summary of audit jobs completed during financial year.

The Former Interim Head of Finance gave details of the work that had been carried out during 2007/08 .

It was RESOLVED that the Members note:

- that the opinion of the Former Interim Head of Finance of a substantial to a full level of assurance on the overall adequacy and effectiveness of the internal control environment at Stevenage Borough Council based on the work undertaken by Internal Audit during 2007/08.
- The issues considered relevant for inclusion in the Annual Governance Statement.

7 REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2007/08

The Former Interim Head of Finance presented the report to committee which covered a review of the effectiveness of the system of internal audit. The review was based on the check list from the CIPFA code of practice for internal audit which would cover the following areas:

- compliance with CIPFA Code of Practice
- effectiveness of relevant Member Committee
- reliance on Internal Audit
- client and management opinion
- extent to which Internal Audit added value and helped delivery of corporate objectives
- any other relevant information

In addition the Audit Commission's recent report on the Review of Internal Audit Management Arrangements provided the following main conclusions:-

- Internal Audit's corporate arrangements broadly met the required CIPFA Code standards. It noted areas where further improvements could be made. These mainly related to improving the way in which Internal Audit engaged with and reported to the Audit Committee
- A revised resourcing table indicated insufficient resources to deliver the 2007/08 plan with consequent slippage in delivering the planned audits.
- With the termination of the Audit Partnership arrangement with North Herts and the recruitment of a new Chief Internal Auditor, the Council needed to closely monitor the effectiveness of the internal audit service to ensure timely delivery of the audits as per the agreed internal audit plan.

The effectiveness of the review highlighted that 2007/08 had been a year of significant change for internal audit. The Audit Committee at its January 2008

meeting had given the go ahead to recruit the Council's own Internal Auditor who started in May 2008. It was acknowledged that the audit process had now been significantly strengthened and the 2008/09 Audit Plan would be achieved.

It was RESOLVED that :

1. The results of the review of the effectiveness of the system of internal audit be noted.
2. The system of internal audit undertaken by Council was effective.
3. The effectiveness of Internal Audit should be included in the Annual Governance Statement.
4. An additional recommendation for there to be quarterly meetings of Internal Auditors with the external auditors be scheduled.

8 INTERNAL AUDIT PROGRESS REPORT

The Chief Internal Auditor presented to committee the progress against the 2007/08 and 2008/09 Internal Audit Plans, during the quarter 1 March 2008 to 30 May 2008.

He explained to Members that since the previous Audit Committee the 2007/08 Audit Plan had been completed with seven audits being carried forward into the 2008/09 Audit Plan. 14% of the 2008 Internal Audit Plan had been delivered as at 30 May 2008.

The Auditor went through each of the 10 final reports, and answered Members questions including one on credit notes.

The Strategic Director of Resources indicated that he would provide a verbal update at the next Audit Committee meeting on the issue of outstanding credit notes.

The Internal Auditor mentioned that the Chair of Committee had accepted an invitation to meet the Internal Audit team in August. The Chief Internal Auditor extended this offer to other committee members.

The Committee decided that in future not all internal audit reports needed to be presented. It was agreed that all internal audit reports of limited assurance opinion or lower and a selection of reports requested by members would be presented. Members selected the following seven after reviewing the 2008/09 Internal Audit Plan:

- Creditors
- Housing Benefits
- Payroll
- Car Parking
- Bus Passes
- Grant Funding

- Asset Management.

The Chair on behalf of the Committee expressed his gratitude to the new Chief Internal Auditor and his team for their progress.

It was RESOLVED that the quarterly report as at 30 May 2008 be noted.

9 CONTRACT STANDING ORDERS AND FINANCIAL REGULATIONS - REVISED

The Strategic Director(Resources) presented the Contract Standing Orders(CSO's) and Financial Regulations (FR) to the committee.

A full review was commissioned in January 2008 by the Strategic Director (Resources). Service Delivery Units and relevant Members were consulted on their current application and suggestions for changes/ improvements to assist in the efficient running of the Council.

Members were given a summary of the key changes proposed to the CSO's:

- Introduction of a new Contract Award Notification Form – This new form must be completed for all contracts awarded over £75,000 in value.
- Introduction of new Procurement Check Lists.
- A new Income Generating Contracts section
- A new Health and Safety section
- Legal corrections – (i.) The standstill period had now been increased from 10 to 15 days (ii.) Procurement exercises which took longer than 12 months from advertisement to contract award must be authorised by either the Borough Solicitor or the Strategic Director (Resources) (iii.) All suppliers under a framework agreement must be invited to mini-competition.

In addition, the following areas of the FR's were proposed for amendment:

- General post title changes e.g. Assistant Chief Executive (Finance) to Strategic Director (Resources)
- Inclusion of the role and responsibilities of the Audit Committee
- Budget Monitoring processes, frequency and responsibilities
- New virement restrictions
- Changes to the approach, authorisation and administration of surveillance operations
- Inventories
- Disposal of assets and treatment of surplus or obsolete stock
- Preferred method of payment to be changed from cheque to BACS

The Borough Solicitor informed the committee that before they were submitted to the Full Council for adoption some revision of the proposed Contract Standing Orders would be required as a result of recent case law.

It was RESOLVED that the revised Contracting Standing Orders and Financial

Regulations be submitted to Council for final approval.

10 URGENT PART I BUSINESS

None

11 EXCLUSION OF THE PRESS AND PUBLIC

None

12 STRATEGIC RISK REGISTER AND RISK MANAGEMENT ARRANGEMENTS

The Committee agreed that the item be deferred to the next Audit Committee meeting.

13 URGENT PART II BUSINESS