

Audit Committee

A meeting of Audit Committee was held on Monday, 29th June, 2009.

Present: Cllr Barry Woodhouse (Chairman); Cllr John Fletcher, Cllr Maurice Frankland, Cllr Maurice Perry and Cllr Mick Womphrey.

Officers: P Saunders, P Johnson, I Jones (R); D E Bond, P K Bell (LD).

Also in attendance: Mr F W Hayes (Chairman of the Standards Committee)

Apologies: Cllr Lynne Apedaile, Cllr Ross Patterson, Cllr Mrs Kath Nelson and Cllr Mrs Sylvia Walmsley.

A **Declarations of Interest**

14/09

Councillor Fletcher declared a personal, non prejudicial in respect of agenda item 9 – Statement of Accounts 2009/2010 as within his previous duties as Mayor he was a trustee of charities included in the financial statements, Teesside Emergency Relief Fund and Emily Eliza Stephenson Trust.

Mr D Bond (Director of Law and Democracy) declared a personal, non prejudicial in respect of agenda item 9 – Statement of Accounts 2009/2010 as within his duties as Director Law and Democracy he was a trustee of charities included in the financial statements, Teesside Emergency Relief Fund and Emily Eliza Stephenson Trust.

A **Risk Management Annual Report - 2008/09**

15/09

Members were provided with the Risk Management Annual report 2008/09.

The Annual report provided details of risk management activity that had taken place over the previous 12 months. It also outlined risk management policies and practices in place and the key issues that would be addressed in the financial year. Additionally the report provided the latest version of the Corporate Risk Register with amendments made over the final quarter of the year ending 31st March 2009.

Members were informed of progress relating to the risk strategy during the year 2008/09, these included:-

- External Assessments
- Internal Assessments
- Improving the framework for identifying and managing risk across the authority
- Continuing the development of risk reporting and monitoring processes and strengthening risk management arrangements at the operational level of the authority
- Local Resilience Forum
- Flu Pandemic
- Insurance
- Benchmarking with other public sector organisations
- Risk Management Services Customer Satisfaction Survey

Other on-going strategic operational activities included:-

- Partnership and Project Management Risks
- Annual Assurance Statements
- Building Schools for the Future
- Business Continuity Plans
- Training and Support

The key issues for 2009/10 included:-

- Corporate Risk Profile
- Comprehensive Area Assessment
- Risk Management Funds

Attached to the report for Members information were the Performance Indicators and a copy of the Corporate Risk Register. Members noted the risk issues and the risk identification and assessment and the proposed risk management.

RESOLVED that the report be accepted.

A
16/09 **Treasury Management Strategy 2009/10**

Consideration was given to a report that explained to Members the principles of the Treasury Management Strategy and provided an update on its practical implementation during the first quarter of 2009/10.

The function of Treasury Management in local authorities was one that attracted little attention until the collapse of the Icelandic banks in October 2008. Since then the opposite had been the case with substantial media coverage. In March 2009 the Audit Commission produced the national report 'Risk and Return' focussing on the lessons to be learned from the impact of the Icelandic collapse. At the same time CIPFA produced revised guidance on Treasury Management for local authorities. Both documents recommended that the implementation of the Treasury Management Strategy should be regularly reviewed by a scrutiny committee, preferably the Audit Committee. In following its usual commitment to sound financial practice Stockton would be submitting such a report on a quarterly basis.

The Treasury Management Strategy for Stockton was agreed as part of its annual budget setting process and was a full Council decision. In February 2009 Stockton agreed on criteria for making "investments".

The first part of the criteria was associated with the financial ratings that were given to Banks or Building Societies where we the Council's funds were invested. The ratings were taken from three different companies to give a widespread of opinion and operate on the policy of using the lowest rating from the three as the guide to suitability. As a consequence of the Icelandic bank collapse the validity of the ratings had been subject to much debate. It had been stated that at the time of the collapse the companies giving the ratings were too optimistic in their assessments and consequently in reaction to this had now become too pessimistic, particularly Moodys. This had led to some authorities questioning the usefulness of the ratings. The revised guidance said that the ratings were a useful indicator but should not be the sole factor used to place investments and should be supplemented by additional information. This

was the stance that had been taken previously and therefore it had no difficulty in complying with the suggested approach.

Stockton Borough Council supplements the rating information in two ways. Firstly we employ the services of independent financial advisors from a company called Butlers. This was procured via a tender process every three years. The contract was for a wider range of services than just information on investment institutions, but this was included as part of the package. The second source of additional information was provided by Stockton's Treasury Management team who scour all available information streams for updates on the changing positions of Banks or Building Societies. These included such sources as specific company appraisal sites, to media coverage and relevant journals. All of this information would be taken in the round before a decision was taken on the placement of an investment.

Even before the Icelandic issue arose the Council had the practice in implementing its strategy of making investment placements with British based Banks or Building Societies. This was down to the fact that security and liquidity of investment outweighed the risk of seeking out higher returns. We also had a belief that should any British institutions get into financial difficulties, the British Government would do everything in its power to prevent their collapse. The actions of the Government since the Northern Rock collapse seemed to vindicate that belief.

In recent times the Council had become even more cautious in the practical implementation of the strategy. Due to reasons of increased security of investment, and not getting tied into the current low rates, the Council had been making investments that were typically only for three to four months. There had been a couple of exceptions with regards to long term deals that were taken out before all the recent issues arose. In those instances the banks involved had offered a floors and ceilings deal. This guaranteed the rate of return at this period of low yield, but restricts their top rate for future years. This would seem to indicate these banks agree with the view that rates would rebound in the medium term.

Although the Risk and Return report concentrated in the main on investments as a consequence of the Icelandic crisis, it also mentioned an approach to loans that local authorities had. Due to the poor returns on investments at present it suggested that redeeming high percentage interest loans previously taken out may be an approach to take. In Stockton's case Officers undertook such an exercise 2 years ago on those that did not have large penalties for redemption. Those that remained at high interest rates had such large penalties the benefit would be lost if they were redeemed. Officers had asked the financial advisors, Butlers, to keep an eye on any possibilities in the market around the lower rate loans.

RESOLVED that the report be noted.

A
17/09 **Annual Report of the Standards Committee**

Consideration was given to a report that provided Members with details of the Standards Committee's Annual Report for 2008/09. The report was presented

by the Chair of the Standards Committee and by the Monitoring Officer.

The production of annual reports was an important part of the Council's performance monitoring, reporting and planning procedures.

Monitoring, planning and reviewing the work of the Standards Committee should equally therefore include an annual reporting process as best practice.

Attached to the report was the Committee's fourth Annual Report (for 2008/09). The report had been agreed by all Standards Committee members.

The purpose of the Annual Report was not only to provide an overview of the work of the Committee in the past year, but also to identify and promote examples of best practice and to provide an opportunity to review and learn from experience. The Report therefore set out the Committee's Statutory responsibilities, summarised how they had changed during the year and how they had been discharged and drew attention to some of the main issues that would require attention in the year ahead.

Members of the Audit Committee were asked to consider and receive the Report.

The Report would also be presented to Cabinet/Council. Cabinet would be asked to consider the Report, provide any comments it wished to make on its content and to recommend it to full Council for acceptance.

Consultation on the Report had also taken place with the relevant Cabinet Member; the Head of Legal Services as Deputy Monitoring Officer; the Head of Democratic Services; the Corporate Governance Group (which includes the Corporate Director of Resources and the Chief Internal Auditor) and the Corporate Management Team. Once agreed the Report would be placed on the intranet and the internet.

RESOLVED that the Standards Committee's Annual Report be received.

A
18/09

The Monitoring Officer's Annual Report 2008/09

Consideration was given to a report that provided the Members with details of the Monitoring Officer's Annual Report for 2008/09. The report had been considered and accepted by the Standards Committee.

The production of annual reports was an important part of the Council's performance monitoring, reporting and planning procedures.

Monitoring, planning and reviewing the work of the Monitoring Officer should equally therefore include an annual reporting process as best practice.

Attached to the report was the Monitoring Officer's fourth Annual Report (for 2008/09). This had been considered and accepted by the Standards Committee.

The purpose of the Report was to provide an overview of the work of the

Monitoring Officer in the past year, to identify and promote examples of best practice and to provide an opportunity to review and learn from experience. The Report therefore outlined the Monitoring Officer's Statutory responsibilities, summarised how they had changed during the year and how they had been discharged and drew attention to some of the main issues that would require attention in the year ahead.

The Report would also be submitted to Cabinet and Cabinet would be asked to consider the Report, provide any comments it wished to make on its content and to recommend it to full Council for acceptance.

Consultation on the Report had also taken place with the relevant Cabinet Member; the Head of Legal Services as Deputy Monitoring Officer; the Head of Democratic Services; the Corporate Governance Group (which included the Corporate Director of Resources and the Chief Internal Auditor) and the Corporate Management Team. Once agreed the Report would also be placed on the intranet and the internet.

RESOLVED that the Monitoring Officer's Annual Report for 2008/09 be received.

**A
19/09 Internal Audit: Escalation of Non-Implemented Internal Audit
Recommendations Report**

Members were informed that the 2009 review of the Internal Audit service by the Council's external auditors raised the following issue:-

"There have been developments in recent years to strengthen the approach to ensuring that Internal Audit recommendations have been implemented. There is no formal escalation process in place to report to the Audit Committee where agreed actions have not been actioned."

Consequently procedures had been devised to rectify the situation. It was intended this process of checking would start from 1st October, 2009, and would therefore start with a sample of audits issued from April to June, 2009, inclusive.

It also meant that with immediate effect all audit recommendations had to have an agreed "implementation by" date inserted.

There were two different systems detailed within the report. One for standard recommendations except schools and one for schools.

RESOLVED that the procedures for escalating the non -implementation of internal audit recommendations be approved.

**A
20/09 Review of Internal Audit Service**

Consideration was given to a report that provided details of the review of the Internal Audit Service for 2008/09.

Under the Accounts and Audit (Amendment) Regulations 2006 (Regulation 6)

an in house review of the Internal Audit service should be carried out each year. This was the report of the third such review and followed that reported to the Audit Committee on 14th April 2008. It had been conducted under the auspices of the Corporate Governance Group. Two members of the Group had reviewed evidence and asked to formulate conclusions, findings and recommendations regarding the service.

The process has involved the following:-

- Detailed consideration of the previous report, conclusions and recommendations.
- a further assessment of the service against CIPFA's Code of Practice for internal Audit Checklist and a review of evidence to support relevant outcomes within the checklist.
- interviews with the Chief Internal Auditor.
- a discussion with the Audit Commission's Audit Manager.
- the views of three Heads of Service (different to those involved previously) whose services are reviewed as a year by year basis by Internal Audit.
- a review of the internal Audit Strategy and specifically actions resulting from it.

The conclusion and recommendations from last year's review were considered in detail and views on each of them were detailed within the report.

Attached to the report was a copy of the checklist with appropriate evidence relating to current compliance. There had been an improvement since the previous review and this was detailed within the report.

At the same time as this review took place there was a review of Internal Audit by the Audit Commission. This had given rise to several recommendations that would form a part of the Internal Audits plans for 2009/10.

From the returns of a sample of Heads of Services their opinions were that the Audit Service complied with the Code of Practice as it applied for services subject to audit. The survey covered areas such as integrity, competence, objectivity, compliance, confidentiality, planning, approach and reporting of audit work.

The report was the subject of significant review last year and more recently by Audit Commission. Some aspects arising from the review were outlined in Section 3 of the report and there were no further comments to make.

The conclusion of the Officers undertaking the review was that the evidence and views received demonstrated that the Internal Audit Service had satisfactory and appropriate arrangements and procedures in place in order to fulfil its duties. Improvements had been made to the way the Service operated during 2008/09.

There remained a number of recommendations that had arisen from the review that had been referred to in the report.

RESOLVED that:-

1. The Internal Audit Strategy Document and related Progress Reports be reported to and considered by the Corporate Governance Group and thereafter the Audit Committee on an annual basis.

2. The work to provide benchmarked evidence be continued and included in subsequent reviews and Annual Reports.

A
21/09

Statement of Accounts

Consideration was given to a report that presented Members the Council's Statement of Accounts for 2008/09.

The Accounts and Audit Regulations 2003 (amended 2006) required all authorities in England to prepare their Statements of Accounts for 2008/09 by 30th June 2009. The setting of this date was one of the steps introduced by the HM Treasury to bring forward the closure process ensuring that all public bodies complete and gain approval of their Statements by a set deadline. This requirement was detailed within the Governments regulation "Whole of Government Accounts (WGA)" and will enable the HM Treasury to consolidate all public body accounts to assist policy making and proper financial management.

To ensure the Governments timescales were met a detailed timetable had been in place for a number of years. This timetable was reviewed on an annual basis to resolve potential problem areas and the process was fully supported by the Corporate Management Team. The Council had met its deadlines and had worked closely with the Audit Commission to ensure the changes to Financial Standards, Practices and Reporting that had been introduced in 2008/09 had been introduced and adopted.

Officers were present to provide some detail on the WGA and closure of accounts process. This would include a brief presentation on key financial issues included within the Statement and processes employed by the Council to identify key stakeholder requirements. A copy of the full Statement of Accounts was available in the Members Library, a draft statement was also available on the Internet and a Summary Statement of Accounts was attached to the report.

In accordance with the Comprehensive Performance Assessment (CPA) Framework the Statement of Accounts including the Corporate Governance Statement, and the approval process should be subject to close and detailed scrutiny by Members. To assist the scrutiny process the following key financial issues had been identified to help the debate:-

- Fixed Assets - the Council's valuation of its assets amounts to £741 million and was a decrease of £14 million from 2007/08, even though we had expended £57 million on the capital programme.
- Income and Expenditure Account – there was an in-year deficit on the Income and Expenditure Account of £68.7 million.
- Long and Short Term Investments amounted to £117 million. This was an increase of £1 million from the previous year.

- The Council's current Long and Short Term Borrowing levels had increased to £260 million having taken out additional borrowing in 2008/09 of £4 million to fund the capital programme.
- The Council's earmarked reserves had increased to £64 million which was an increase of £9 million from the previous year.
- The level of General Fund balances at the 31st March, 2009 had decreased to £9.8 million and School Reserves stood at £4.5 million.

A requirement of the regulations stated that the lead Member of the Committee must sign the explanatory forward and it was requested that the committee approve the Statement of Accounts, including the Corporate Governance Statement, enabling the Chair of the Audit Committee to undertake this role.

RESOLVED that the Statement of Accounts for 2008/09 be approved and the explanatory forward be signed by the Chairman.

A
22/09

Work Programme 2009/10

Members were presented with the Work Programme for the Audit Committee for 2009/10.

RESOLVED that the Work Programme for the Audit Committee for 2009/10 be noted.