

# Audit Committee

A meeting of Audit Committee was held on Monday, 7th December, 2009.

**Present:** Cllr Barry Woodhouse (Chairman); Cllr John Fletcher and Cllr Maurice Perry.

**Officers:** M Mason (CESC); I Jones, J Bell, D MacDonald, P Saunders (R); C Andrew, L Snowball (Audit Commission); P K Bell (LD).

**Also in attendance:** None.

**Apologies:** Cllr Apedaile, Cllr Frankland, Cllr Mrs Nelson, Cllr Mrs Walmsley and Cllr Womphrey.

## **A 33/09**      **Declarations of Interest**

Councillor Fletcher declared a personal non prejudicial interest in respect of agenda item 10 - Health and Safety Report as his wife had been treated through the Wellbeing Team.

## **A 34/09**      **Minutes of the meetings held on 24th August 2009 and 28th September 2009**

The minutes of the meetings held on 24th August 2009 and 28th September 2009 were signed by the Chairman as a correct record.

## **A 35/09**      **Use of Resources 2008/09**

Members were presented with a report that summarised the Audit Commission's key findings from their assessment of how Stockton on Tees Borough Council was managing and using its resources to deliver value for money and better and sustainable outcomes for local people.

The Council performance was excellent at managing finances, with a strong value for money culture, excellent financial management practice and timely and reliable external financial reporting. The Council could demonstrate efficiencies and improved performance as a result of investment into services. There were high and sustained levels of satisfaction with services.

The Council performance was excellent at governing the business. There was a systematic approach to commissioning and procurement with high levels of partnership working and joint commissioning resulting in savings. Relevant and accurate information was used to support decision making. There were sound internal control arrangements and a high standard of governance.

The Council performed well at managing resources. Plans were in place to minimise use of natural resources with extensive work on carbon management. There was limited evidence to date of improved outcomes other than those related to carbon reduction. Physical assets were proactively managed and the Council worked with partners to maximise integrated service provision and regeneration opportunities.

From 2008/09, the new use of resources assessment formed part of the Comprehensive Area Assessment (CAA) and comprised three themes that focused on:-

- sound and strategic financial management;
- strategic commissioning and good governance; and
- the management of natural resources, assets and people.

The scores for each theme were based on the scores reached by auditors on underlying Key Lines Of Enquiry (KLOE). The KLOE were generic and applicable equally to all organisations subject to use of resources judgements under CAA. This promoted consistency, demonstrating all organisations within a CAA area were treated in the same way, and to the same standards.

The Commission specified in its annual work programme and fees document, which KLOE were assessed over the coming year.

Judgements had been made for each KLOE using the Commission's four point scale from 1 to 4, with 4 being the highest.

The Council's use of resources theme scores were as follows:-

Managing finances How effectively does the organisation manage its finances to deliver value for money?

Financial planning 4  
 Understanding costs 4  
 Financial reporting 3

Overall Level 4

Governing the business How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?

Commissioning and procurement 4  
 Data quality 4  
 Good governance 3  
 Risk management and internal control 3

Overall Level 4

Managing resources How well does the organisation manage its natural resources, physical assets and people to meet current and future needs and deliver value for money?

Use of natural resources 2  
 Strategic asset management 4

Overall Level 3

The Chairman, on behalf of the Committee, thanked Lynne Snowball and Cath Andrew (Audit Commission) for attending the meeting and presenting the report.

Members considered the report and asked a number of questions for clarification.

Members were delighted with how positive the report was and congratulated and thanked all Officers associated with the areas of work involved.

RESOLVED that the report be noted.

**A  
36/09**      **Annual Audit Letter 2008/09**

Members were presented with the Audit Commission Annual Audit Letter for 2009.

The Audit Commission was responsible for arranging for the audit of the accounts of the Council (either by private firms or through their own auditors). They were also responsible for leading the annual Comprehensive Area Assessment (CAA).

A formal stage in this process was the production of the "Annual Audit Letter". The Annual Audit Letter for 2008/9 had been received and was presented to Members.

The Annual Audit Letter provided a comprehensive and independent assessment of the overall "health" of the Council. It reported on the detailed results of all service inspections and assessments and also references how the Council worked with key partners. In line with previous practice, a copy of the Annual Audit Letter would be sent to all Members of the Council.

The Audit Commission considered that Stockton on Tees Borough Council was improving well and was judged as being at level 4 (the highest rating) for its Use of Resources.

The Audit Commission had issued an unqualified audit opinion on the Council for 2008/9.

The Commission considers that the Council's arrangements for managing finances were excellent, with a strong value for money culture. The arrangements for governing the business were also judged as being excellent with a systematic approach to commissioning and procurement supported by high levels of partnership working and joint commissioning and resulting in savings.

It considered that the Council performed well at Managing Resources. For 2008/9 a new line of enquiry was introduced that related to how well the Council was managing its use of natural resources and how it was influencing others.

The annual audit letter complimented the Organisational and Area Assessment outcomes within the CAA framework and primarily focused on judging the Council's use of resources and value for money. It also included reference to a review, conducted jointly by the Audit Commission and Deloitte across the North East, in relation to how organisations were working together to tackle health inequalities. A more detailed review was also undertaken across Stockton of action being taken to address teenage pregnancy. Both of these informed the Area Assessment aspect of CAA.

The Commission considered that the Council needed to:-

Work with partners, using the recommendations in the health inequalities reports to improve targeting and performance management, making effective use of the voluntary sector and community views.

RESOLVED that contents of the Audit Commission Annual Audit Letter be noted.

**A Treasury Management Strategy 2009/10 – 3rd Quarter Update**

**37/09**

Consideration was given to a report on the Treasury Management Strategy - 3rd Quarter Update.

The report aimed to update Members about the issues surrounding Treasury Management, and the implementation of the strategy at Stockton during 2009/10.

The report to the Committee in the second quarter highlighted the problems that were occurring at the three banks (Northern Rock, RBS, Lloyds) where intervention by the Government had taken place. During November there were substantial developments for all three. The European Commission agreed to the splitting of Northern Rock into two parts. Effectively a 'good' bank and a 'bad' bank, with the latter carrying all the assets that potentially had default liabilities. Any deposits Stockton would place with Northern Rock would be with the 'good bank'. Unfortunately the Northern Rock was not interested in giving quoted rates for the amounts of money the Council would be investing over the short timeframes the Council would be looking to place the investment.

In the cases of RBS and Lloyds the European Commission had insisted that parts of both businesses be sold off to ensure greater competition in the High Street, RBS was the bank with most difficulties and would not be helped by the fact one part of the business it was being forced to sell, RBS Insurance, currently contributed a healthy profit to the group. As a consequence of its poor position RBS would receive more money from the Government and enter its asset protection scheme. At the time when this would be finalised the Government would own 84% of the bank. Lloyds had decided not to enter the asset insurance scheme but instead would offer shares to get a money injection into the bank. However for the assistance it had already received from the Government it would have to pay it the considerable fee of £2.5 billion. Clearly for all these three banks it would be some considerable time before they retrieve the current situation.

As mentioned in the last quarter's report the two major UK banks that did not go for Government aid, Barclays and HSBC were making profits. Barclays had just announced their third quarter results. Total revenue was better than last year, but due to increased bad debts, the net profit was down on the same period in 2008. They did however still register a pre-tax profit of £4.542 billion. HSBC did not release any actual figures but said its pre-tax profits were ahead of those at the same time in 2008.

The major news on building societies was that the ratings agency Fitch issued a

negative outlook on seven building societies in November. This did not however create any change in their ratings. The reason for this was that apparently there was a difference in the rating world between a negative outlook and a negative watch. On further investigation of the two assessments although they were based on very much the same factors, it was felt for a negative watch this was likely to impact on the organisation within six months, but for a negative outlook the period could be up to two years before impact was felt. Due to previous revised definite downgradings in ratings and changes in the strategy limits, Stockton Council now had six building societies on its counterparty list that it no longer placed investments with, compared to 2008. These were Chelsea, West Bromwich, Newcastle, Progressive, Cumberland and National Counties. It might be noted that in the intervening period none of these societies had gone out of business and none had received Government aid.

The restriction in the number of institutions the Council could invest with, and the low rates that were being offered in some instances at present, was making it difficult to obtain a sufficient rate of return to achieve the investment income target in the Medium Term Financial Plan. To give examples of this, at the moment if the Council held money on 24 hour call just like a normal bank account, the Council would receive 0.8% interest, to get a percentage above this from Barclays the Council must place the money for six months or more. When the Council recently asked the Co-op Bank for quotes for a 3 or 4 month placement they offered 0.5% and 0.55% respectively. It was only the advantageous rates that the Council got at the back end of 2008, beginning of 2009, and the fact that some of the building societies were still offering rates just below 2% that was enabling the Council to keep on course to meet the target. As the Council move into 2010/11 however many of those advantageous deals will have disappeared and in the budget setting process for next year the Council may well have to propose some changes to the strategy and counterparty list, to allow the Council to make the target, or somewhere near in 2010/11.

One possible area that may create some relief in 2010/11 was that of money market funds. As the Finance Director of the Local Government Association recently ascribed some local authorities had kept away from these because underlying investments had not always been disclosed as frequently as would be liked, and the fees charged may have been seen as too high. Certainly these were the reasons Stockton had not used these. The LGA was looking at products in this area that would deliver greater transparency, better returns, and with joined up local government investment a dilution of risk. If the LGA were successful in delivering such a product it would be worth investigating to evaluate whether future participation worthwhile.

With regard the borrowing aspect of the strategy Members were reminded that at the presentation of the last quarter's report it was mentioned that the Public Works Loan Board was consulting on rates to be issued four times during the day, rather than just once at the beginning of each day. As part of the consultation local government had been lobbying that the gap for redeeming debt should narrow if this mechanism be introduced. At this stage the PWLB seemed to be responding positively to this suggestion. The formal outcome would be known when the consultation ended in January 2010. If the premiums for redeeming loans did fall, or actually changed to discounts, it may

be appropriate for Stockton to consider redeeming some of its lower priced debt at that point.

RESOLVED that the report be noted.

**A**  
**38/09**      **Internal Audit Progress Report**

Consideration was given to a report on that advised Members of the work carried out by the Internal Audit Section and the progress made during the quarter July to September 2009 against the Annual Audit Plan.

Internal Audit was an independent appraisal function established by the Council to objectively examine, evaluate and report on the adequacy of internal controls. This role ensured that there was proper economic, efficient and effective use of resources. It also ensured that the Council had adequate accounting records and control systems.

Members were reminded that the list of all audit work undertaken in the period covered by the report had been circulated prior to the meeting. The intention was to give Members the opportunity to raise questions on issues that affected their ward or other areas of responsibility and for answers to be provided at the meeting.

The appendices that were attached to the report showed details of the sections performance in the following areas:-

- \* Key Performance Indicators.
- \* List of audits undertaken and number of recommendations made.
- \* Details of audits by Service Groupings.

Members were given further details on a number of audits where there had been a large number of recommendations and were then given the opportunity to ask questions.

RESOLVED that the report be noted.

**A**  
**39/09**      **Internal Audit Progress Report – Grangefield Youth and Community Centre**

Consideration was given to a report that advised Members about progress with the internal audit report on Grangefield Youth and Community Centre.

Internal Audit published a report on Grangefield Youth and Community Centre on June 8th 2009. Internal Audit had been contacted in October 2008 by the Manager of Community Education who was concerned about the lack of submission of the 2007/08 accounts.

When internal audit started their investigation they raised issues about the accounts and the financial processes that were either being used by the Management Committee inappropriately or not at all. One particular issue was about having sufficient information in the accounts for 2006/07, 2007/08 and

2008/09 to allow audits to take place. Internal audit also noted a lack of systematic line management of the site manager's work and of financial controls and records that should have been in place.

The report was presented to the Audit Committee on August 24th and Members asked to be updated on progress at their next meeting.

Led by the Director, Officers from Children Education and Social Care and Internal Audit met with the site manager and the management committee on several occasions to agree how to implement the recommendations of the report. Through the summer period considerable support was given to the site manager to help him bring together the required evidence and to construct the accounts. Work was also undertaken to agree how a more rigorous line management could be put in place to ensure robust financial and personnel procedures were followed in the future and supervision was regular, ongoing and proactive. The management committee were challenged about their mode of operation and how they could bring the oversight that was required with public money and resources.

The accounts had been constructed and were being audited. As with any audit a few small problems were emerging but these were being resolved. The Youth Support Manager for Central Stockton had been given a clear line management role with ongoing monitoring of the Centre and the Site Manager which involved regular direct contact. The Site Manager's job had relinquished his other responsibilities and was only responsible for Grangefield Youth and Community Centre with one named line manager. The management committee had appointed a new treasurer who had a financial background and who was taking a more proactive role. A new constitution for the management committee was to be adopted, which was clearer about the roles of the Council and the Committee and guidance booklets on good financial management would be published in the next month. A full account of progress made was given in the appendix to the report.

Internal Audit were now satisfied that the financial processes being used in Grangefield Youth and Community Centre had improved significantly and were no longer inadequate.

One consequence of the audit had been a tightening up of financial procedures in all community centres that were in the Children Education and Social Care Directorate and it was hoped that the learning that had taken place could be shared with all Council resourced community centres.

The Youth Services had also learnt from the report and the subsequent analysis of support required for site managers and management committees and had strengthened the line management of staff in all its Centres and the guidance they were giving management committees. This would include regular meetings with the chairs of management committees.

RESOLVED that the report be noted.

Consideration was given to a report on the Corporate Risk Register Progress Report Quarter 2 (2009/10) - Period Ending 30th September 2009.

Members were reminded that quarterly reports on the Corporate Risk Register were presented for the purpose of reviewing the key risks that had been identified as having the potential to deflect services from achieving their objectives over the next 12 months and beyond. They also set out the actions being taken to ensure that the risks, and possible adverse outcomes, were minimised.

Members had requested that, in the absence of substantial changes to the register, quarterly reporting should be confined to highlighting significant additions and amendments since the previous update, with a detailed report incorporating a review of the Council's risk management process being produced annually at the end of Quarter 4.

The interim report covered the period 1 July to 30 September 2009. All Service Groups had been contacted subsequently and the returns indicated that there had been some changes to the Authority's risk profile over the months in question. These comprised the addition of one new risk, the deletion of an existing risk, together with the update of a number of the existing entries, as more particularly described later in the report.

The changes since the last reported position were attached to the report as follows:-

- \* New risk added to the register.
- \* Deletion from/amendments to the register.

The new risk added to the register that was summarised within the report was:-

The successful transfer of the ownership, management and maintenance of the Council's housing stock to a newly created Registered Social Landlord organisation.

A more detailed risk identification, assessment and management information for the new risk was attached to the report.

The details of the risk that had moved below the corporate reporting threshold, and which had therefore been deleted from the register was attached to the report. Also recorded were changes to the general management information for individual risks, and to the numbering sequence of entries in the register.

As one risk had been added and another deleted, the total number of significant risks in the Corporate Risk Register thus remains unchanged at 14 at the end of the Quarter.

Members noted the changes referred to within the report and that they had been incorporated in the latest version of the full Corporate Risk Register. This was available in the Member's Library and an electronic copy incorporating the supporting risk assessment details was available to Members.

RESOLVED that the report be noted.



**A  
41/09**

## **Health and Safety Report Period 1st July 2009 - 30th September 2009**

Consideration was given to a report that detailed the services and activity of the Health and Safety Unit for the period 1st July to the 30th September 2009

The significant activity of the Health and Safety and the Well-being team was outlined, including partner and stakeholder involvement.

With regard Health & Safety Training 10 programmed training sessions were delivered to a total of 280 delegates, and 13 further bespoke courses delivered within departments.

The activity of the Wellbeing Team was detailed within the report.

As part of the 3 year Health & Wellbeing Strategy action plan, a programme of seasonal flu vaccinations had been agreed for all front line social care staff to protect both themselves and vulnerable clients from the winter flu virus. Flu Fighters had been identified as a provider for such and the Wellbeing team were working with them to organise and arrange vaccination clinics when the swine flu pandemic occurred and a directive was issued from the DoH to provide some of these staff with the H1N1 vaccination (swine flu).

The Wellbeing team worked with CESC and the PCT to combine and organise both vaccination programmes and roll the programme out quickly and effectively. Clinics began on 2nd November and to date they had vaccinated 337 front line social care staff against both the seasonal and swine flu virus' as a preventative measure and to ensure business continuity to the valuable front line services. The programme would continue into December to ensure that all who need and want the vaccinations will be offered it.

Accidents reported to the Health & Safety Unit during the period were 13. This compared with 17 over the same period last year and with 8 in the previous reporting (quarter) period.

Physical Assaults reported to the Health & Safety Unit were 14. This compared with 27 over the same period last year and with 26 in the previous reporting (quarter) period.

Verbal Assaults reported to the Health & Safety Unit this period were 11. This compared with 21 over the same period last year and with 28 in the previous reporting (quarter) period.

The number of premises subjected to a health, safety and welfare audit during the period amounted to 35.

The number of recommendations provided to premises managers within the period to ensure a satisfactory standard of safety management safeguards was 41.

The number of Pre-Construction Health & Safety Information packs produced during the period was 15.

During the ongoing monitoring and reviewing of the decent standards improvement schemes a total of 3 audits were undertaken with 2 recommendations issued to Tristar Homes Ltd.

The Health and Safety Unit performed the role of Educational Visits Adviser in accordance with industry best practice as defined by DFEE (as was) publication, Health and Safety of Pupils on Educational Visits 1998, BS 8848 2009 and the Learning Out of The Classroom (LOTC) Code of Conduct.

The role provided advice and training, challenging individual school's visits safeguards and endorsing those arrangements attaining the necessary standard. In the second quarter, the safety management safeguards of 20 educational visits (13 domestic, 7 foreign) involving 684 pupils have been appraised, challenged and endorsed.

The Employee Protection Register was launched in July 08, and to date has a total of 790 users are assigned to use it.

RESOLVED that the report be noted.

**A**  
**42/09**      **Annual Report of the Audit Committee 2009 (discussion item)**

Members were informed that the Annual report of the Audit Committee 2009 was in the process of being finalised and it would be presented to the next meeting of the Audit Committee.

RESOLVED that the update be noted.

**A**  
**43/09**      **Work Programme 2009/10**

Members were presented with the Diary of Meetings and Work Programme for the Audit Committee for 2009/10.

RESOLVED that the Diary of Meetings and Work Programme for the Audit Committee for 2009/10 be noted.