Audit Committee

A meeting of Audit Committee was held on Tuesday, 27th September, 2011.

Present: Cllr Barry Woodhouse (Chairman); Cllr Derrick Brown, Cllr Phillip Dennis, Cllr Alan Lewis and Cllr Ross Patterson.

Officers: J Bell, P Saunders, P Johnston, S Winship, D MacDonald (R) ; P K Bell (LD)

Also in attendance: C Andrew (Audit Commission).

Apologies: Cllr Ben Houchen, Cllr Mrs Kath Nelson, Cllr Mrs Sylvia Walmsley and Cllr David Wilburn.

A 15/11 Declarations of Interest

Cllr Dennis declared a personal non prejudicial interest in respect of agenda item 6 - Annual Financial Statements 2010/11 as he was employed by one of the organisations named in the report.

Cllr Dennis declared a personal non prejudicial interest in respect of agenda item 9 - Treasury Management Strategy - Update as through his employment he had dealings with one of the organisations named in the report.

Cllr Woodhouse declared a personal non prejudicial interest in respect of agenda item 11 - Health & Safety Report due to his employment and the Employee Protection Register Activity.

A 16/11 Minutes

The minutes of the meetings held on 28th February 2011 and 27th June 2011 were signed by the Chairman as a correct record.

A 17/11 Audit Commission Progress Report

Members were presented with the Audit Commission Progress Report.

The report provided a summary that informed Members of the progress on the audit to date. The update also highlighted key emerging national issues and developments.

The fee planning letter was discussed with Officers and the audit fee agreed with the Corporate Director of Resources. It was presented to the Audit Committee in May 2010. The more detailed audit plan was considered at the Audit Committee meeting in February 2011.

The audit of the financial statements had been completed an unqualified opinion would be given. The annual governance report summarising the findings from the audit was included on the agenda for this meeting.

The Audit Commission had completed their value for money work and concluded that the Council had arrangements in place for the two specified criteria:-

* the organisation has proper arrangements in place for securing financial

resilience; and
* the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The fee planning letter had been discussed with officers and the audit fee agreed with the Corporate Director of Resources. 2011/12 fees were a 10% reduction compared to 2010/11. In July 2011 the Audit Commission wrote to all audited bodies confirming a further 8 per cent rebate on 2011/12 audit fees.

The report also outlined the future of the Audit Practice and other Audit Commission national publications.

RESOLVED that the Audit Commission Progress Report be noted.

A 18/11 **Audit Commission Annual Governance Report 2010/11**

Members were presented with a report that summarised the findings from the 2010/11 audit which was substantially complete.

It included the messages arising from the audit of the Council   Financial Statements and the results of the work undertaken to assess the arrangements to secure value for money in the Council use of resources.

The audit was substantially complete and an audit report including an unqualified opinion on the financial statements, subject to satisfactory clearance of outstanding issues would be issued.

The report outlined that it had been an exceptional and challenging year for the Council. This year's financial statements were the first prepared under International Financial Reporting Standards (IFRS) which made significant changes to accounting requirements and involved a lot of extra work. The Council also transferred its housing stock to a new registered social landlord in December 2010, requiring a series of complex transactions.

The Council prepared well for the introduction of IFRS and produced the draft financial statements in time for the statutory deadline of 30 June. There were a large number of errors and inconsistencies in the statements, mainly due to IFRS adoption and stock transfer, including some material errors.

Amending the errors had:-

* reduced the usable reserves by £2,679,000;
* increased total expenditure by £22,487,000; and
* reduced net assets by £22,487,000

An unqualified Value For Money conclusion would be issued:-

* the Council has maintained arrangements to secure financial resilience despite ongoing reductions in grant funding; and

* the Council has maintained arrangements to secure economy, efficiency and effectiveness through its ongoing review of all services

The report included only matters of governance interest that to light in performing the audit. The audit was not designed to identify all matters.

It was confirmed that the audit had complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. It was also confirmed that there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice had not undertaken any non-audit work for the Council during 2010/11.

Members:-

* considered the matters raised in the report before approving the financial statements;
* noted the adjustments to the financial statements that were set out in the report;
* agreed to the proposed approach in the financial statements where management had declined to amend or set out the reason for not amending the errors;
* approved the letter of representation, provided alongside the report, on behalf of the Council before the opinion and conclusion is issued; and
* agreed the response to the proposed action plan.

RESOLVED that:-

1. the report be received and the matters raised be noted.

2. the letter of representation be approved and signed by the Chairman on behalf of the Council.

3. appropriate actions be undertaken to deliver the recommendations identified by the Audit Commission.

A 19/11 **Annual Financial Statements 2010/11**

Consideration was given to a report that presented the Council's Annual Financial Statements for 2010/11.

The Accounts and Audit Regulations 2011 changed the requirements regarding the completion and approval of the Annual Financial Statements. From 2010/11, all authorities in England were required to prepare their Annual Financial Statements by 30th June and to then pass them to external auditors for audit review. Authorities were then required to present audited accounts for approval by those charged with governance by 30th September.

The financial statements were the first to be produced under International Financial Reporting Standards. This in itself was a major change to the accounting regime and had required the restating of the Balance Sheets for 2008/09 and 2009/10 and of the Comprehensive Income and Expenditure Statement for 2009/10.

The Council transferred its housing stock under the Large Scale Voluntary

Transfer Scheme (LSVT) which added an additional level of complexity to producing the financial statements.

To assist Members in reviewing the Annual Financial Statements the following key financial issues had been identified for consideration:-

* Non Current Assets - the Council's valuation of its assets amounts to £466 million and is a reduction of £336 million from 2009/10. The major part of the reduction was the writing out of the transferred housing stock.

* Comprehensive Income and Expenditure Statement (CIES) – there was an in-year deficit on the Income and Expenditure Account of £63 million. The CIES contained a number of transactions that were noted:-

a) The LSVT saw housing stock valued at £321million written off and the establishment of the Academy schools saw a further £20 million write off.

b) The Department for Communities and Local Government repaid housing related long term borrowing of £151 million and early repayment premia of £20 million on the Council's behalf as part of the LSVT process.

c) The Government announced plans to inflate future pensions using the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) has meant that the Council’s pension liability has reduced and the CIES has benefitted from a one-off actuarial gain of £58 million.

* The Council’s current Long and Short Term Borrowing levels have reduced from £260 million to £57 million. This follows the repayment of £151 million by DCLG stated above and the repayment of £51 million by the Council in April 2010.

* Long Term and Short Term Investments and Cash Equivalents amount to £84 million. This is a reduction of £43 million from the previous year and reflects the use of £51 million used to reduce long-term debt.

* The Council’s earmarked reserves (excluding schools) have increased to £86 million which is an increase of £15 million from the previous year.

* The level of General Fund balances at the 31st March, 2011 stood at £10.2 million, the Housing Revenue Account balance was £2.1 million and School Reserves stand at £5.8 million.

A requirement of the regulations stated that the lead Member of the Committee must sign the statements and it was requested that the Committee approve the Annual Financial Statements, enabling the Chair of the Audit Committee to undertake this role.

Members were given the opportunity to study and ask any question on the Annual Financial Statements 2010/11. Members asked detailed questions on the Annual Financial Statements 2010/11 and the Chief Accountant was in attendance at the meeting to answer the questions.

The Committee approved the Annual Financial Statements 2010/11 and as lead

Member of the Committee the Chair signed the explanatory forward.

RESOLVED that the Statement of Accounts for 2010/11 be approved and the Balance Sheet be signed by the Chair.

A 20/11 **Internal Audit Progress Report**

Consideration was given to a report that detailed the work carried out by the Internal Audit Section and the progress made during the quarter April to June 2011 against the Annual Audit Plan.

The report outlined that 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.

The report detailed the sections performance in the following areas:-

* Key Performance Indicators.

* Details of audits by Service Groupings (2010/11 & 2011/12).

* List of audits completed and in progress and number of recommendations made (2010/11 & 2011/12).

Members were given the opportunity to ask questions and make comments on the audits completed.

RESOLVED that the Internal Audit Progress Report be noted.

A 21/11 **Update: Future of Local Public Audit**

Consideration was given to a report that updated Members on the future of local public audit.

On 30th March 2011, the Government published its proposals on the future of public audit following its announcement to disband the Audit Commission. At the last meeting held on 27th June 2011, the Committee agreed the Council's response to the consultation and asked for further updates as more information became available. Although the Government had not published the results of the consultation, the Council had received a letter from Sir Bob Kerslake (Permanent Secretary to the DCLG) which gave the details of the Governments plans. The letter was attached to the report.

The Council had received details from the Audit Commission regarding the timetable for the procurement and what it meant for the Council's auditor appointment. The Commission intended to award contracts in spring 2012 to allow the new auditor appointments to be in place by 1st September 2012. The Council's current external auditor would audit the accounts for the 2011/12 financial year. As the new contracts will not start until 1st September 2012, interim arrangements had to be in place to cover the period from 1st April 2012 to 31st August 2012. The Commission were proposing to extend the Council's current auditor appointment to deal with any issues that may arise during that period. The interim auditor's role would be limited to keeping a "watching brief". Any costs incurred by interim auditors wwould be paid by the Commission.

The position was set out in the table overleaf:-

From 1 April 2011 - Current auditor (in-house audit practice) - No change for audit of 2011/12 accounts.

1 April 2011 to 31 August 2012 - Current auditor - (in-house audit practice):-

• Interim appointment for 2012/13: no change – subject to consultation by end of 2011.

• Role will be to keep a "watching brief" only and any costs incurred by auditors will be paid by the Commission.

From 1 September 2012 - New auditor - (private firm):-

• Change of auditor (to a private firm) – subject to consultation following award of contracts in spring 2012

• Auditor will audit the 2012/13 accounts (opinion on the financial statements and the annual VFM conclusion).

• Full year's scale fee payable by audited body.

• Auditor responsible for audit of future year's accounts.

RESOLVED that the report be noted.

A 22/11 **Treasury Management Strategy - Update**

Consideration was given to a report that provided an update of the practical implementation of the Treasury Management Strategy approved by Council in February 2010.

Members were aware that since the Icelandic Banking Crash the prime aim of security in local government investments had increased emphasis. The continual monitoring of information on any changes in the investment sector being paramount. This summer saw the announcement of the half-year profit statements for the major banks. These were something of a mixed bag. HSBC continued to defy the difficult economic conditions and posted a pre-tax profit of £7 billion, a rise of 3% on the 2010 figures. Both Barclays and Santander announced half year profits of £2.6 billion and 3.5 billion Euros respectively; these were however down in comparison to 2010 by over 20% in each instance. In both cases large provisions for future pay outs for the mis-selling of Payment Protection Insurance contributed significantly to the losses. Lloyds revealed a loss of £3.3 billion with RBS announcing a loss of £1.4 billion. Again provisions against future PPI payouts being a large proportion in both sets of results. RBS also made a considerable provision for exposure to losses from the Greece debt difficulties.

There was little doubt that the problems within the Eurozone economy were presently the ones with the potential for the most immediate and significant impact. The mnemonic of PIIGS had been around sometime. Whilst there were concerns about the state of Portugal, Ireland, Italy, Greece and Spain's economies, possibly the most worrying of these were the recent developments in Italy given the size of its economy and debt. Media stories continued to speculate on contagion within the Eurozone. All of this uncertainty allied to the fact that the global economy was not recovering as fast as anticipated, create questions on the impact for banks in the coming 12 months. However on 12 August the Chancellor of the Exchequer issued the following statement. "I can confirm the assessment of the Bank of England, the Financial Services Authority and the Treasury is that the British Banks are sufficiently well capitalised and are holding enough liquidity to be able to cope with the current market turbulence. We have in place well-developed and well-rehearsed contingency plans." Given that there was such uncertainty and mixture of messages, Stockton continued to only make investments up to a maximum of 12 months with any of its counterparts, even though the Strategy allowed a maximum of 3 years.

With regard to returns of the investments made, not unnaturally given the base rate continuing to remain at 0.5%, these continued to be suppressed. To date in 2011 the Council had continued to maintain the 1.8% rate of return was averaged in the last financial year. However during this financial year the Council would see the end of several 3 year investments the Council placed in 2008/9 and it was possible the rate of return would fall later in the year. This confirmed decrease in rate of return further vindicated the decision to redeem the £50 million in debt that was taken in April 2010, releasing interest payments at an average of 4.26%, much higher than any investment rate of return that was likely to be available for the foreseeable future. Allied to that debt redemption was the one associated with the Housing Stock Transfer. In total this meant that from a position of having £256 million of debt on 1 April 2010, on the 1 April 2011 this had reduced to £56 million. In interactions with financial colleagues in the other Tees Valley Authorities, it appeared Stockton was best placed in both its investment and debt position.

RESOLVED that the Treasury Management Strategy Update be noted.

A 23/11 **Corporate Risk Register Progress Report**

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.

This interim report covered the period 1 April to 30 June 2011. All Service Groupings 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 comprise the addition of three new risks, all of which were previously amalgamated in one entry, but had been separated for the purposes of more specific reporting. No existing risks had been deleted but a number of the entries had been updated as more particularly described later in the report.

The changes since the last reported position were detailed in the attached appendices as follows:-

* New risks added to the register.
* Updates of the register.

The new risks added to the register were summarised within the report.

More detailed risk identification, assessment and management information was attached to the report.

Also attached to the report were the details of changes to the general management information for particular risks and to the numbering sequence of entries in the register where necessary.

As three new risks had been added and none deleted, the total number of significant risks in the Corporate Risk Register at the end of the current Quarter was 12.

For purposes of record, the changes referred to above 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 the SBC intranet.

RESOLVED that the report be noted.

A 24/11 **Health and Safety Report**

Consideration was given to a report that detailed the activity of the Health and Safety Unit for the period 1st April to the 30th June 2011.

The report detailed the significant activity of the Health and Safety and the Well-being team including partner and stakeholder involvement:-

1. Health and Safety training
2. Health and Well-being Update
3. Accidents Reported
4. Physical Assaults Reported
5. Verbal Assaults Reported
6. Premises Audited
7. Construction (Design & Management)
8. External CDM-C Provision to External Clients
9. Educational Visits Advisers Role
10. Employee Protection Register Activity
11. Sub Contractor Health & Safety Policy Appraisal

12. Event Safety Management
13. Involvement with External Organisations

RESOLVED that the report be noted.

A 25/11 **Work Programme 2011/12**

Consideration was given to the proposed Work Programme for the Committee for 2011/12.

RESOLVED that the proposed Work Programme for 2011/12 be approved.