

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on TUESDAY 30 SEPTEMBER 2008 at 1.30pm.

Present:-

Mr G N Cook in the Chair

Councillors Allan, Arnott, T Wright and Mr J P Paterson.

Declarations of Interest

None.

Apologies for Absence

Apologies for absence were received from Councillor M Forbes and Councillor Wares.

Minutes

1. RESOLVED that the minutes of the meeting of the Committee held on 31 July 2008 be confirmed and signed as a correct record.

Audited Statement of Accounts 2007/2008

(a) Letter of Representation

The Council's Letter of Representation to the Council's External Auditor was submitted (copy circulated), advising that the representations given in connection with the audit of financial statements for the year ended 31st March, 2008 were accurate.

The City Treasurer advised that the issues raised in the Letter of Representation had largely been drawn from the Statement of Accounts and the Members of the Committee were given assurances that all issues of which the authority is aware had been reflected and taken into account.

Councillor Wright enquired if any further information had been received in respect of the Pyeroy claim relating to the Wearmouth Bridge. The City Treasurer advised that there had been no further progress. Both claims

relating to the two bridges had been before an Adjudicator and been dismissed. The City Solicitor added that the initiative was with the claimants and no further action had been taken.

2. RESOLVED that the Authority's Letter of Representation be received and noted.

(b) Annual Governance Report 2007/2008

The District Auditor, Mr Steve Nicklin introduced the Council's External Annual Governance Report and advised that the Audit Commission proposed to issue an unqualified opinion on the financial statements and an unqualified value for money conclusion for the Council for 2007/2008.

Mr Nicklin went on to explain that a formal objection had been received to the accounts in relation to car parking issues and a formal certificate for completion of the audit could not be issued until the matter was resolved.

The Annual Governance Report summarises the findings from the 2007/2008 audit and identifies the key issues to consider before the Audit Commission issues their opinion. The Council is required to:-

- consider the matters raised in the report before approving the financial statements;
- agree to adjust the financial statements as set out in the Audit Commission's recommendations;
- approve the representation letter on behalf of those charged with governance before the Audit Commission issue their audit opinion.

Mr Nicklin reported that the Audit Commission had a good working relationship with Council Officers and there was no need to take formal action in relation to the financial statements, other than to consider the objection.

Councillor Wright asked when the Audit Commission expected to resolve the objection to the accounts and Mr Nicklin advised that there was no deadline for this but they would usually aim to determine the matter within six months. The Commission were in discussions with their Solicitors about the legal issues raised.

Councillor Allan enquired if this kind of objection had been raised in the past. The District Auditor informed the Committee that it was a different objection to that received on a previous occasion and a number of Councils across the country had received objections related to this subject. Lynn Hunt advised that the Audit Commission would seek to ensure a consistent response to Authorities across the country and resolution may take longer to be achieved in consequence.

3. RESOLVED that the Authority's Annual Governance Report be received and noted.

(c) Audited Statement of Accounts 2007/2008

The City Treasurer submitted the revised Audited Statement of Accounts 2007/2008 for approval by the Committee.

The amended accounts reflected the changes set out in Appendix 1 and two further changes circulated at the meeting. The adjustments were minor and presentational.

Councillor Wright highlighted that the Cabinet Members and relevant Portfolios were listed for 2008/2009, although the accounts were for 2007/2008. The City Treasurer advised that although the accounts were for the previous year, the process of approval extends beyond the end of the financial year and can involve other Members.

Councillor Arnott enquired about the transfer of £5.56m to the Strategic Investment Reserve and if it was likely to be used. The City Treasurer reported that Single Status Phase 2 was yet to be implemented and there was still discussion around the date of implementation. Reference was also made to the economic downturn and that the Authority had commitments which relied on the generation of capital receipts. The City Treasurer stated that the level of capital receipts anticipated may not be achieved or disposals may be deferred until there was an economic upturn and the transfer to the reserve may be needed to finance the approved capital programme.

Councillor Wright asked for clarification about the asset disposal of the land at High Street West. The City Treasurer advised that this was the site known as Helios 2 which was purchased originally for the cinema development and was the site where the bowling alley and apartments would be.

Having considered the report, it was:-

4. RESOLVED that the amended Audited Statement of Accounts for the financial year ended 31 March 2008 be approved.

Internal Audit Services- Progress Report for 2008/09

The City Treasurer submitted a report requesting Members to consider the performance of Internal Audit Services (IAS) up to 5 September 2008, the areas of work undertaken, and information on current developments in IAS.

The Assistant City Treasurer (Audit and Procurement) briefed Members on the report, highlighting the relevant points. He drew attention to the tables showing planned resources and commented that the overheads were as expected. A chargeable audit time of 77.3% had been achieved on the Utilisation of Productive Days Available, which was in line with the figures planned for the year.

Section 4 of the report highlighted Internal Audit Services' performance against its Key Performance Indicators. All targets under the heading of 'Cost and Efficiency' had been achieved and attention was drawn to the figure of 32.5% of planned audits completed which was ahead of the target. It was noted that the Service was well within its target for issuing the draft report following the end of fieldwork.

Under the objectives for 'Quality', IAS had retained its ISO 9001 : 2000 Certification and all significant recommendations had been agreed.

Section 5 of the report summarised the numbers of recommendations for improvement from audits which had been categorised as high, medium and low risk. There had been no high risk recommendations made, 136 medium risk and 255 low risk. With regard to the rate of implementation of agreed recommendations, the percentage of medium risk significant recommendations which had been implemented was slightly below target.

External Audit had given a satisfactory opinion of IAS.

The results of post audit questionnaires had shown clients to have scored the Service as 1.2 on average based on a scale where 1 is good and 4 is poor. There had been no complaints received about the Service this year and IAS had received four recommendations from the District Auditor to act upon which would contribute to continuous improvement.

The final section of the report outlined developments made within Internal Audit Services and the progress made towards recommendations that had been made by District Audit.

The Assistant City Treasurer (Audit and Procurement) summarised that the IAS were on track to deliver the Internal Audit Plan, previously agreed by the Committee and it is considered that overall throughout the Council there continues to be a sound internal control environment.

The Chairman enquired about the current status of the protocols and practices in respect of ICT Disaster Recovery arrangements. The Assistant City Treasurer reported that the protocols and practices had been drafted by the Corporate Head of ICT, had been circulated for comments and would now be presented to the Authority's Executive Management Team to be signed off. The Annual Report would cover this issue for the Audit and Governance Committee and the Chairman requested that it be highlighted that the Committee had picked up on this matter.

Councillor Wright asked if this review of the protocols had taken in issues of data security. The City Solicitor advised that a memo had been issued to all staff and the Information Security Manager was working on the ICT security side. A draft Cabinet report had been produced on ICT Disaster Recovery and this could be provided for the Committee if required.

Councillor Wright expressed his congratulations to those involved in implementing District Audit's recommendations for continuous improvement and asked if the figure of 32.5% was just for audits which were complete. It was explained that this figure

did represent audit work which had been completed but there was other work in progress at the same time.

Councillor Wright went on to ask how honest Officers felt clients were being when asked how satisfied they were with IAS. The Assistant City Treasurer (Audit and Procurement) commented that one indicator would not be looked at in isolation and a balanced scorecard model would be used where some indicators back up or challenge others. The return rate of 60% of questionnaires was quite high and a range of questions were asked of clients about what they liked and disliked about the process. It was felt that the comments received from the questionnaires were reasonably reflective of what people thought about the service.

In response to a query, the Assistant City Treasurer (Audit and Procurement) advised that the specifically requested would usually be received from the City Treasurer but could also be generated by Directors themselves or as a response to whistle blowing with regard to a system or process. It was appropriate to set time aside within the Audit Plan to address these issues.

With regard to the performance indicator for the average number of days between the end of fieldwork to the issue of a draft report, Councillor Wright asked if the target of 15 working days was reasonable as 9.9 days had been achieved. The Assistant City Treasurer (Audit and Procurement) advised that this had always been a key target, although the results of the audit would be verbally communicated at the end of each piece of work. It was possible that the target could be revised down but this would be done cautiously as the target was actually more stringent than the ones for other Tyne and Wear audit sections.

Having considered the report, it was:-

5. RESOLVED that the contents be received and noted.

Audit Commission – Further Work on Property Services

Prior to consideration of the report, Councillor Arnott declared a personal interest in the item, the nature of the interest being that he rents a car parking space from the Local Authority.

The Director of Development and Regeneration submitted a report presenting the summary of findings of the District Auditor with regard to the review of lease management arrangements in Property Services.

The Head of Land and Property reported that the review had been carried out following the Committee's consideration of a report on the proposed sale of the Council's freehold reversionary interest in Ford and Hylton Club. The findings of the review confirm that there has been significant improvement in the governance arrangements for rent reviews. There were still some outstanding items for improvement:-

- The adoption of a rent concession policy – a draft policy has been prepared and will be recommended to Cabinet in the near future.
- The use of private sector rent comparators – procedures are in the process of being amended to ensure that where possible, comparators from the private sector are also used.
- Improved timescales for completing rent reviews and monitoring compliance with lease terms – discussions are underway regarding how best to resource this area and improve performance.

Lynn Hunt, the Audit Manager informed Members that the record keeping had improved and much clearer processes were now in place. The important thing was that the Council should define best consideration for rent reviews and include, where appropriate, non-financial factors. There was provision within economic regeneration legislation for this to happen but decisions had not been taken in line with any specific policy. General management issues such as the timeliness of rent reviews and enforcement of lease terms were highlighted.

The Chairman referred to the issues raised by the Audit Commission and expressed his concern regarding the issues to be addressed. He asked how quickly the issues would be attended to and Mr Clark, Head of Land and Property advised that it should take no longer than three months. The Chairman requested that a progress report be brought back to the next meeting of the Committee by the Head of land and Property. The Chairman then requested that Internal Audit subsequently review the progress made to provide independent assurance that the improvements were in place and working in practice. Councillor Arnott supported these proposals.

It was:-

6. RESOLVED that a further report be brought back to the next Committee by the Head of Land and Property in response to the District Auditor's review of the lease management arrangements in Property Services. Further, that Internal Audit review these improvements to ensure that they were in place and working in practice.

(Signed) G N COOK
Chairman