

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on TUESDAY 30 SEPTEMBER 2010 at 1.30 pm.

Present:-

Mr G N Cook in the Chair

Councillors M Forbes, Rolph, Tate and Mr J P Paterson.

Declarations of Interest

The following Councillors declared personal interests in the following report as Members of the bodies indicated:-

Item 8 – Audited Statement of Accounts 2009/2010	Councillor Rolph	Member of the LGPS
	Councillor Tate	Member of the LGPS, Member of GMB, Chairman of Hetton Home Care, Director of Newcastle International Airport, Director of Empire Theatre Trust and Wife works for the Local Authority

Apologies for Absence

Apologies for absence were received from Councillors Allan and T Wright.

Minutes of the Meeting

14. RESOLVED that the minutes of the Committee held on 29 June 2010 be confirmed and signed as a correct record.

The Director of Financial Resources clarified that the Annual Report on the Work of the Audit and Governance Committee had been presented to the Council on 29 September 2010 rather than the Cabinet as stated in the minutes.

He also informed the Committee that the South of Tyne and Wear Waste Management Partnership PFI had been reported to the Cabinet and to full Council.

With regard to budget reductions which had been discussed at the last meeting, the Director of Financial Resources provided copies of the report which had been considered by the Cabinet for the information of the Committee.

The Director advised that he had written to Councillor Forbes in response to the queries she had raised at the last meeting on the Statement of Accounts. With regard to Councillor Forbes' question on the proportion of council tax that related to pension fund costs, he explained that it was a misrepresentation to show the amount required for the Local Government Pension Scheme (LGPS) as a proportion of the council tax raised as the cost of pensions was also funded through grants and other funding sources.

Treasury Management – Half Yearly Review of Performance 2010/2011

The Director of Financial Resources submitted a report detailing the borrowing and investment strategy and the Treasury Management Performance for 2010/2011 to date.

The borrowing and investment performance for 2010/2011, in accordance with the requirements of Treasury Management Policy and Strategy, was set out in the report. Internal monitoring procedures track performance daily against the various prudential indicators agreed by the Council. The indicators were approved by Council on 3 March 2010 and are regularly reviewed to ensure that:-

- the Council remains within its Authorised Borrowing Limit for External Debt;
- treasury management decisions are taken in accordance with the Treasury Management Code of Practice and the current Council Treasury Management Policy and Strategy Statement;
- the capital expenditure control framework operated locally is consistent with, and supportive of, local strategic planning, local asset management planning and proper option appraisal.

The report covered quarters one and two of 2010/2011 and the Director of Financial Resources elaborated on the predicted and actual changes in interest rates over the period. This illustrated how the monitoring and understanding of interest rates was key to treasury management.

Variations in longer term borrowing were also illustrated in the report; £30.5m had been borrowed this year, the largest component of this being rescheduled debt. Rescheduling exercises had taken place in January 2009 and January 2010 and these had been beneficial to the Council resulting in an underspending in 2009/2010 with further savings in 2010/2011. The Council was also now benefiting from ongoing lower borrowing costs, as the replacement borrowing, at an average of 3.3% was at lower rates than the original borrowing.

The investment policy was being monitored to ensure it had flexibility to take full advantage of changes in market conditions. The lending criteria and lending list had been amended because it was proving difficult to place money. This was done while bearing in mind the Council's investment priorities, which are, in order of importance:-

- (A) The security of capital;
- (B) The liquidity of its investments; and then
- (C) the Council aims to achieve the optimum yield on its investments but this is commensurate with the proper levels of security and liquidity.

The Council was outperforming its benchmark for returns received on investments and confirmation had been received that arrangements for access to money markets were now in place.

Having given consideration to the report, it was:-

15. RESOLVED that the Treasury Management Performance for 2010/2011 to date be noted.

International Financial Reporting Standards (IFRS) – Progress Report

The Director of Financial Resources submitted a report providing an update on the Council's progress towards compliance with IFRS since the last report in March 2010.

The workload and timetable for the IFRS had been divided into three manageable phases:-

- Phase 1 – Restatement of the 2008/2009 transition balance sheet.
- Phase 2 – Full restatement of 2009/2010 accounts into IFRS compliant accounts.
- Phase 3 – Production of IFRS compliant accounts for 2010/2011 (with comparisons of 2009/2010).

Phase 2 of the process was to be completed by 31 December 2010, however CIPFA have not provided the templates for this as yet. During the final stage of the convergence process, it was intended to provide detailed training for Members and Officers to ensure understanding and enable adequate scrutiny of the revised Statement of Accounts.

The key information within the Statement of Accounts would not change but the disclosure notes would have to be more detailed. The Director of Financial Resources highlighted that staff within the Team were monitoring the situation

closely and are able to access early information and will present this to the Committee as soon as practicable.

The Committee:-

16. RESOLVED that the report and project outline be noted.

Corporate Risk Profile

The Director of Financial Resources submitted a report informing the Committee of the updated Corporate Risk Profile and the amendments which had taken place since the last report in March 2010.

The Head of Audit, Risk and Procurement stated that the report provided information in relation to:-

- the identified risks and any additions, changes or closed risks;
- an analysis of the risk score movement and commentary;
- an analysis of progress in relation to actions identified to mitigate the risks.

In a change to previous reporting, rather than the whole Corporate Risk Profile being provided to the Committee, high level summary information was presented to demonstrate that major risks have been identified and assessed and were being managed effectively.

The report comprised four tables detailing the changes to risk descriptions, additional and closed risks, risk movement and analysis of actions. This was presented to the Committee to provide information and assurances on the risks to the authority.

Councillor Rolph drew attention to the risk associated with developing and delivering an effective strategy for social inclusion and community cohesion and queried whether any cuts to these programmes would affect the risk score which had remained the same, where in similar circumstances, other risk scores had increased. The Head of Audit, Risk and Procurement advised that risk scores were determined by a consensus of the Corporate Risk Management Group and then validated through the Executive Management Team. The Director of Financial Resources added that it was also a timing issue as the risk review began in April prior to the Government grant reductions. The next review had just begun and this would come more quickly to the Committee and would also begin to capture the impact of spending restrictions, again depending upon the timing. A number of the increased risk scores were a direct reflection of the degree of uncertainty around financial and policy issues.

Councillor Rolph also highlighted that in terms of Risk 31 'Failure of the Organisation to have an overall approach to sustainability', this would feel the impact of the flexible working pilot as people working at home produce more emissions. Another major consideration would be the strategic waste solution and the Director noted that

as this was not yet implemented there was a degree of uncertainty around this too. Councillor Tate added that the environmental impact of transporting the waste had to be considered.

With regard to the presentation of the information, Councillor Tate enquired whether a traffic light system might be used to make this clearer. The Director of Financial Resources drew attention to the 'heat map' within the report and said that efforts would be made to improve the clarity of this in future reports.

Having considered the Corporate Risk Profile, it was:-

17. RESOLVED that the updated Corporate Risk Profile be noted.

Interim Audit Opinion Report 2009/2010

The Audit Commission submitted a report detailing the results of their interim audit work for 2009/2010.

Gavin Barker highlighted that this was the work done prior to the production of financial statements and consisted of mapping the financial and information systems providing material figures in the financial statements, documenting the processes and controls in place within each system and testing key controls within the systems to ensure they are operating effectively.

The Audit Commission had concluded that in general, the key controls within the Council's main financial systems were operating as designed. A small number of recommendations were made in relation to high value journal entries, Council Tax, Benefits and IT access controls.

With regard to journal entries, the Audit Commission had felt it necessary to carry out a more detailed check of the process and Steve Nicklin suggested that the Council may want to consider doing random checks on low level journal entries.

In response to a query from Councillor Rolph on records management for BACS audit trails, the Director of Financial Resources advised that the software had kept records for what was felt to be an adequate length of time but had proved not to be sufficient, but another system was now in place which retained BACS payment runs for 18 months.

Following discussion, it was:-

18. RESOLVED that the Interim Audit Opinion Report 2009/2010 be noted.

Audited Statement of Accounts 2009/2010

The Director of Financial Resources submitted a report which presented the Interim Annual Governance Report 2009/2010, the revised Annual Governance Statement and the Audited Statement of Accounts 2009/2010.

The Director referred the Committee to the covering report which outlined the circumstances which had led to the audit not being concluded and a final opinion and certificate not being issued.

During the public inspection period for the accounts, a request had been received to examine documents relating to the Council's PFI contracts. These contracts had confidentiality clauses, however under the Audit Commission Act 1998, members of the public have the right to inspect documents and other information underlying the Accounts. The relevant contractors had been asked if they were prepared to release the information, however there was currently a piece of case law going through the court of appeal challenging whether Section 15 of the Audit Commission Act 1998 would override the confidentiality aspects of agreements. The High Court had said the Act did take precedence but the decision had been appealed against and the judgement would not be handed down until October.

At the present time, the Council was not able to satisfy the request of the member of the public or the wish of the contractors to keep the information confidential. As a consequence of this, the period of inspection had been stopped, the Director of Financial Resources had been unable to send a Letter of Representation to the Audit Commission and they in turn could not offer an opinion or issue a certificate.

Once the legal position was clarified, the Council would be notified by the Auditor of a fresh public inspection period and a new date when local electors can ask the Auditor questions and/or raise objections to the Statement of Accounts 2009/2010.

The Audit Commission have provided an 'interim' report and have indicated that they would have issued an unqualified opinion under normal circumstances.

(a) Interim Annual Governance Report

Steve Nicklin, the District Auditor, introduced the Interim Annual Governance Report and highlighted that this was 'interim' because the inspection period had been halted and the Audit Commission did not know what all the matters raised by the public may be.

In relation to the District Auditor's statement on the independence of the process, he highlighted that a member of the staff at the Audit Commission had a partner working in Sunderland libraries but this did not compromise objectivity.

The audit had found that the Council had adequate arrangements for securing economy, efficiency and effectiveness in the use of resources and the District Auditor planned to issue an unqualified Value for Money conclusion once the issues which had stopped the audit had been resolved. The District Auditor had recognised the strengths demonstrated by the Council and noted the further improvements made.

An action plan had been developed with three main recommendations relating to working papers for the accounts, the valuation for Newcastle International Airport and a review of the scope for a more streamlined and focused set of

financial statements for 2010/2011. All of these actions were to be complete for the 2010/2011 accounts.

The report identified the key messages for the Committee to consider. The District Auditor asked the Audit and Governance Committee to:-

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements set out in the report;
- take note of the reasons why the District Auditor would be unable to issue an opinion by 30 September 2010;
- note the District Auditor's findings in relation to the value for money conclusion; and
- agree a response to the proposed action plan.

Councillor Tate was pleased to have an external body giving the Council a clean bill of health and felt confident that the good standards would be maintained even without a Use of Resources Assessment in the future.

The Assistant Head of Performance Improvement highlighted that the issues noted for further improvement within the report were already known to the Council and that the Authority was very self aware about the areas it needed to improve.

The District Auditor having indicated that the Committee would need to consider the report again once the audit was complete, it was:-

19. RESOLVED that the Interim Governance Report be received and noted.

(b) Audited Statement of Accounts 2009/2010

The Director of Financial Resources submitted the Statement of Accounts 2009/2010 for consideration by the Committee.

The accounts had been amended to reflect presentational changes following the audit and the changes were set out in Appendix B to the report.

Once the legal position with the Accounts was resolved and the inspection period concluded, the audited and amended Statement of Accounts 2009/2010 would be re-presented at a future meeting of the Committee for approval.

Following discussion, it was:-

20. RESOLVED that the audited Statement of Accounts for the financial year ended 31 March 2010 be noted.

(Signed) G N COOK
Chairman