

AUDIT COMMITTEE

A meeting of the Audit Committee was held on 23 June 2009.

PRESENT: Councillor Clark (Chair), Councillors C Hobson, Majid and Taylor.

OFFICERS: B Baldam, S Harker, P Slocombe and G Gallagher.

****PRESENT BY INVITATION:** Councillor N J Walker.

****ALSO IN ATTENDANCE:** C Craig, Director, Assurance and Advisory, Deloitte.

** DECLARATIONS OF INTEREST

Name of Member	Type of Interest	Item / Nature of Interest
Councillor Taylor	Personal/Non Prejudicial	Agenda Item 4 - Matters relating to Supporting People Grant – employee of Tees Valley Housing.
Councillor Clark	Personal/Non Prejudicial	Agenda Item 4 - Member of Teesside Pension Fund and Investment Panel.
Councillor Majid	Personal/Non Prejudicial	Agenda Item 4 - Member of Teesside Pension Fund and Investment Panel.

** MINUTES

The minutes of the meeting of the Audit Committee held on 27 May 2009 were taken as read and approved as a correct record.

DRAFT STATEMENT OF ACCOUNTS 2008/2009

The Director of Resources presented a report regarding the draft Statement of Accounts 2008/2009. A copy of the draft Statement of Accounts 2008/2009 had been circulated to Members of the Audit Committee. The Statement of Accounts included the accounts for Teesside Pension Fund for which the Council was the Administering Authority.

The Statement of Accounts was a technical publication containing accounting statements prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain and the Statutory Accounts and Audit Regulations. The purpose of the Statement of Accounts was to present the overall financial position of the Council as at 31 March 2009 in accordance with guidance produced by CIPFA. The Director of Resources highlighted key aspects for Members' consideration including the strength of balances, income and expenditure account, policy issues and the stability of the Council to enable it to meet future pressures.

The Statement of Recommended Practice (SORP) further supported the accounting framework. The SORP was updated annually and specified the accounting principles and practices required to prepare a Statement of Accounts that presented the position of the Local Authority fairly.

The key changes introduced by the recent SORP were highlighted as follows:-

- Revenue Expenditure Funded from Capital under Statute. Deferred Charges had been replaced with a new category of expenditure – "Revenue Expenditure Funded from Capital under Statute". This resulted in a change in the accounting policy because the accounting requirements were now different. There was no impact on the Authority's bottom line or Council Tax.

- Area Based Grant (ABG).
In 2008/2009 the Council received an Area Based Grant from the government that incorporated a range of grants formerly paid on an individual grant by grant basis. This included grants from the Department of Children, Schools and Families (DCSF), the Home Office, Communities in Local Government (CLG) and the Department of Health and amounted to £18.4 million. The major benefits of the Area Based Grant centred around it being a general grant where the Council had full flexibility to determine its use and relaxations in the administration requirements with regard to reporting. The grant had to be included in the same section of the Income and Expenditure Account as NNDR and Council Tax income.
- Pension Fund Valuation.
The 2008 SORP introduced a change in the valuation method for pension fund investments. They were now required to be valued on a fair basis. Prior to the 2008 SORP the mid-market price was used as the basis for valuing investments. The effect of this change was dealt with in the Pension Fund accounts for 2007/2008. This resulted in some opening balances being restated in line with the new methods of valuation.

The Deputy Director of Finance highlighted the purpose of several of the Statements within the Accounts as follows:-

- The Explanatory Foreword was a guide to the most significant matters impacting on the Council's finances including an indication of where the Council's funding came from, what it was spent on and what services it provided. A review of the Financial Year was included in this section and the impact on the Council of the downturn in the economy had been added to the statement. Although a range of areas across the Council had been affected by the downturn the impact had been minimised by realistic assessments of possible reductions in income when the budget was set. It was noted that although the reduction of the Council's share of Right to Buy receipts was a notable budget pressure, the income would ultimately not be lost, although it would be delayed.
- The Statement of Accounting Policies explained the basis for the recognition, measurement and disclosure of transactions and other events in the accounts. The accounting policies had been reviewed and appropriate changes made in preparation for the introduction of the Internal Financial Reporting Standards (IFRS).
- Appendix A – The Income and Expenditure Account, provided the net cost for the year of all the Council's functions and services and how those costs had been funded.
- Appendix B – The Statement of Movement on the General Fund Balance, provided reconciliation between the surplus/deficit for the year on the Income and Expenditure Account and the General Fund Balance.
- Appendix C – The Statement of Total Recognised Gains and Losses, summarised all the gains and losses that affected the Council's net worth, including gains and losses from the revaluation of assets and the actuarial valuation of the Pension Fund, which did not pass through the Income and Expenditure Account.
- Appendix D – The Balance Sheet, detailed the value of assets owned by the Council, the level of creditors (amounts owed by the Council), the level of debtors (amounts owed to the Council) and the level of provisions and balances maintained by the Council.

Members were informed that four additional members of staff had been employed from the beginning of the current financial year with a view to increasing the amount of Council tax collected in-year. It was suggested that increasing the number of residents paying by Direct Debit could lead to a further improvement in this area.

- Appendix E – The Cash Flow Statement, explained the movement in the Council's cash balances over the year and summarised the inflows and outflows of cash.

- The Teesside Pension Fund Accounts showed the contributions to the Council's Pension Fund for employees employed by the sixty plus contributing bodies during 2008/2009, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the fund as at 31 March 2009.

The 2008/2009 financial year had been difficult for the Teesside Pension Fund with the downward trend that started in the final quarter of 2007/2008 continuing. The Fund's total had reduced by £347 million from £2,048 million to £1,701 million, a reduction of 17% in the year, due to the fall in the market value of the Fund's investments. However the Funding Level was still well above the average LGPS Fund and significantly above the value of the Fund five years ago. The Director of Resources met on a daily basis with the Loans and Investment Manager to monitor the Fund's investments.

Internationally a number of accountancy regulatory bodies had agreed to a convergence of accounting standards and practices globally to enable easier comparison of accounts across countries. Local Government accounts were moving to a standard known as International Financial Reporting Standards (IFRS). This had, and would, lead to significant changes to the format and accounting practices for local government. The Council had commenced the implementation project.

The Corporate Affairs Committee received the Corporate Governance Statement on 3 June 2009. The statement covered the review of the effectiveness of the Council's systems of internal control and governance arrangements. The Corporate Affairs Committee requested that an evaluation of whether there were any barriers to the effectiveness of partnerships and outside bodies be included in future reviews. The Committee also asked for an overall summary/assessment of the six core principles underpinning the governance arrangements of the Council to be included in future Corporate Governance Statements. An overall assessment of the six core principles had now been carried out and a summary of the outcome had been included in the Corporate Governance Statement incorporated into the 2008/2009 draft Statement of Accounts.

Overall the accounts showed a sound financial position for the Council with the level of balances being in line with the Council's Medium Term Financial Plan. The application of sound financial management across all services was reflected in the final out-turn for the year with a net saving compared to budget of £61,000 (0.1%). Actual capital spend in the year was £52.6 million, compared with a budget of £59.2 million. Expenditure during the year was mainly funded from grants (68%), from usable capital receipts (9%), from borrowing (15%), from revenue contributions (3%) and from capital contributions (5%). The percentage of spend achieved compared to the budget represented 89%.

Issues relating to New Deal for Communities funding had been identified and this had also been the case in the previous year's Statement of Accounts. It was confirmed that discussions were ongoing with regard to claw-back of funding from Macmillan College for New Deal for Communities, for which the Council was the accountable body. The funds did not have to be repaid to Central Government and the Council was entitled to negotiate the claw-back directly with the College.

With regard to significant internal control issues, areas of concern which arose during 2008/2009 were highlighted around The Working Neighbourhoods Fund, Supporting People Grant and submission of Grant Bids. Action plans, including additional staff training, were in place to address these areas.

It was noted that the Statement of Accounts 2008/2009 would be subject to external audit by Deloitte which would commence on 3 August 2009 and was expected to be completed by 24 August 2009. A statement (ISA +260) would be produced which would detail any unadjusted misstatements found during the course of the audit.

A copy of the draft Statement of Accounts was available in the Members' Library and on the Council's website. A combined Annual Report/Summary of Accounts would be produced for 2008/2009 including performance information and summary financial data and would be published in the summer edition of Middlesbrough News. Notices would be given in the local

press for any interested person to inspect, and make copies of, the Statement of Accounts and other documents between 6 and 31 July 2009.

RECOMMENDED that the contents of the draft Statement of Accounts 2008/2009 be noted.