

AUDIT COMMITTEE

16 April 2009 at 7.30 pm

MEMBERS: Councillor Terry Faulds (Chair), Councillor Simon Wales (Vice-Chair)
(All present) and Councillors Tim Crowley, John Leach and Roger Thistle.

ALSO PRESENT: Lindsey Mallors and Ade Oyerinde (Audit Commission).

337. INTRODUCTIONS

The Chair welcomed Lindsey Mallors and Ade Oyerinde from the Audit Commission to the meeting.

338. MINUTES

The Minutes of the meeting held on 18 December 2008 were approved as a correct record and signed by the Chair.

339. REVIEW OF CORPORATE GOVERNANCE 2008/09

A review for the 2008/09 financial year, published in accordance with the joint corporate governance framework and guidance of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), was submitted.

The review comprised a description of the range of policies, strategies and arrangements that gave effect to corporate governance in Sutton, and addressed each item in the corporate governance framework in terms of its application in Sutton. Sutton was maintaining sound arrangements in response to each framework item. Where there had been opportunities for development they had been identified and progressed.

The Committee's functions, and those of the Standards Committee, reflected those specified in the joint guidance.

The Standards Committee had also considered the report on 1 April 2009 (Minute 278/09).

Members considered and reviewed the corporate governance arrangements for 2008/09. In response to a question there was a short discussion around member training for the audit function. Lindsey Mallors informed the Committee that there were no significant concerns with the corporate governance arrangements.

Resolved: To endorse the satisfactory outcome of the corporate governance review for 2008/09.

340. ANNUAL AUDIT AND INSPECTION LETTER AND 2008 USE OF RESOURCES AND DATA QUALITY REPORTS

Lindsey Mallors from the Audit Commission presented the Annual Audit and Inspection Letter for 2007/08 that had also been considered by The Executive (Minute 296/09). The Council's assessment under the Comprehensive Performance Assessment was 4 stars/ improving strongly. Sutton was improving strongly with outstanding partnership working enabling continuing improvement against national and local priorities. The corporate assessment found the Council to be performing strongly and was in the upper quartile nationally.

The Council had further strengthened its arrangements for financial management and value for money over the last year, achieving for the first time a score at the

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highest level of 4 for Use of Resources. The Council's auditor gave unqualified opinions on the financial statements, the pension fund accounts and on the arrangements for securing value for money.

The Committee also considered the 2008 reports from the Council's external auditors relating to Use of Resources and Data Quality. The Council achieved 4 stars for both Use of Resources and Data Quality in 2008.

The Audit Commission would be publishing a report on "Financial Management in Local Government" later this spring and would feature Sutton as an exemplar case study on improvement in value for money.

In all assessments there were areas where improvement was necessary and officers through relevant action plans would take this forward. This Committee would track progress on actions relating to Use of Resources and Data Quality.

Councillor Tim Crowley was concerned that under the new Comprehensive Area Assessment arrangements high performing authorities such as Sutton could be drawn down if their partners were not high scoring. Lindsey Mallors explained that if a partner was not performing within the framework this should be reflected in their organisational assessment and specific areas of concern might receive a "red flag".

Resolved: (i) To ensure that a copy of the Annual Audit and Inspection Letter has been provided to all Council members.

(ii) That the following actions needed by the Council be referred to the Scrutiny Overview Committee for consideration and a report be submitted to this Committee in six months time:-

The Council should:

- Ensure that all improvement areas identified by the corporate assessment are effectively addressed;
- Continue to monitor the performance of the ALMO closely to support improvement and to generate the required financial capacity to deliver on the decent homes standard for all the Council's housing stock;
- With partners, embed improvements in the safeguarding arrangements for vulnerable adults and children and young people and further develop the Council's corporate parenting role; and
- Build on the good relationships with the PCT to further exploit opportunities for health improvement through, for example, joint needs analysis, commissioning and use of assets.

341. ANNUAL INTERNAL AUDIT PLAN FOR 2009/10

The Committee considered the report of the Chief Internal Auditor that set out the Internal Audit Plan for 2009/10 that had been presented to the Corporate Management Team. Outcomes from the 2008/09 Plan would be reported to the next meeting of the Committee. The Committee also considered the Internal Audit Terms of Reference that were updated in February 2009 to reflect current developments.

The Plan reflected the continuing change that affected the Council's systems of internal control. The Plan also recognised the need to respond to as many requests as possible through advice and consultancy, that managers found helpful to strengthen control and improve fraud prevention measures.

Councillor Tim Crowley asked if the Council's data quality would be adequate in future years as there was increasing emphasis on data quality in the new Comprehensive Area Assessment. Simon Bailey felt that they were adequate.

Resolved: That the Annual Internal Audit Plan for 2009/10 and the updated Internal Audit Terms of Reference be agreed.

342. EXTERNAL AUDIT PROGRESS REPORT

Lindsey Mallors from the Audit Commission presented the report on progress in delivering their responsibilities as the Council's external auditor. The report also sought to highlight key emerging national issues and developments that might be of interest to members of the Committee.

Since the last meeting of the Committee the Audit Commission had begun work in a number of areas. These were reported to the Committee and included a summary audit work plan that had been agreed with the Strategic Director of Resources.

Lindsey Mallors said that for the purposes of their audit, she wished to take the opportunity of discussing the following areas with the Committee and members gave their responses:-

- (i) Were members of the Audit Committee aware of any actual, suspected or alleged instances of fraud?

The Chair referred to the Committee's review of arrangements following a fraud court case in July 2007 (Minute 669/07) and a copy of the minute of the meeting was given to Lindsey Mallors. Frauds and irregularities were also reported on in the half year and full year internal audit reports
- (ii) How did the Audit Committee oversee management's processes with regard to fraud and internal control?
 - Council's whistleblowing procedures – the Chair had personally met with the union to check awareness and compliance on this;
 - half year and full year internal audit reports;
 - initiatives by the Committee such as asking for reports on the Council Tax Single Person's Discount and making recommendations to The Executive;
 - training sessions for members on fraud;
 - advertising campaigns;
 - free telephone confidential line;
 - publicising of successful prosecutions of fraud; and
 - annual fraud review.
- (iii) How did the Audit Committee gain assurance about the Council's compliance with relevant laws and regulations?
 - the annual review of corporate governance;
 - the Annual Governance Statement;
 - briefing notes to update members on any relevant laws and regulations especially the quarterly updates from legal;
 - reports of the internal and external auditors;
 - reports on data protection and IT security; and
 - professional journals.

In all these issues the Audit Committee's approach was to focus its attention on those matters most requiring attention because of their inherent importance or because of the assessed level of risk, and to constructively challenge and probe officers and management on these matters.

Resolved: That the report be noted.

343. INFORMATION MANAGEMENT SECURITY UPDATE

Further to Minute 771/08, the Committee considered the Head of Information Technology's report that summarised progress in implementing the enhanced information management security arrangements to achieve the requirements of the government connect secure intranet connection to access Department of Work and Pensions (DWP) data required to process benefits.

The Council had submitted its first government connect compliance statement in December 2008 and approval was received on 23 March 2009 and the connection was due to be implemented on 9 April 2009.

As part of the government connect process, 14 firewalls had been replaced and upgraded to provide enhanced security for the Council's network and secure complex passwords had been introduced for all users. The secure physical segregation of public access, schools access and staff access had been improved when all three were in use.

The Council had purchased and tested new on line training for all users covering three aspects of information security:-

- Data Protection.
- Information Security.
- Freedom of Information.

This was delayed so that a single corporate tool could be purchased for all on line training including staff induction, health and safety and other policy based training. The tool was used by over 100 councils and allowed the Council access to courses published by other councils that could be amended and adopted locally. This was due to be launched for all users during April 2009 and revenues and benefits staff needing to access DWP data had piloted the courses.

Existing information security policies had been reviewed to make them easier to understand and use and these were reported to the Committee.

The ICT code of conduct was approved and letters issued to all staff and contractors. Over 65% of staff had signed the revised ICT code of conduct and 12 months was allowed to complete this task. All the staff in the Chief Executive's and Resources service groups had signed. In April all staff yet to sign and return acknowledgement of the ICT code of conduct would receive a reminder letter.

Since September there had been seven reported information security incidents that were reported to the Committee. These had all been reported using the agreed procedure, and the completed incident reports showed there was a better understanding of the Council's information security processes. In each case an impact assessment was undertaken, having quantified the amount of personal data involved. In four cases the incident had been reported to the Information Commissioners Office and in two cases the customers affected had been notified. The last case was still under investigation. In each case it was felt that the risk of the data being compromised was low.

The main outstanding action was to provide encryption tools for staff that had laptops and/or needed to copy data to portable media. The Council were in the final stages of completing a tender and evaluation of the preferred product, which would then be rolled out to users.

The proposed information audit and classification toolkit was developed and had undergone a number of pilots. However, the feedback was that it was difficult to use and it was not made any easier by the lack of an agreed standard definition of risks and category levels for local government. The national impact levels applied

mainly to central government. It had been suggested that a national definition would shortly be agreed. This work was also a casualty of the considerable workload involved with the government connect submission, which had to be prioritised due to the absolute deadline imposed by the DWP.

Resolved: To note the progress made implementing the enhanced information management security arrangements.

344. UPDATE REPORT ON MANAGEMENT OF CURRENT RESPONSIVE, SERVICING AND MINOR WORKS PARTNERING FRAMEWORK CONTRACTORS

Further to Minute 773/08, the Committee considered the report of the Executive Head of Construction and Property that provided an update on the management of the current responsive servicing and minor works partnering framework contractors.

The contracts with the four contractors (BTU Maintenance Limited (Mechanical Engineering), Apex Lifts (lift Engineering), Toolbase Limited (Asbestos Removal and Encapsulation), and Wessex Windows (Aluminium Windows), had been extended to 30 September 2009.

Following notification to Willmot Dixin Sustain that their contract would not be extended beyond 31 March 2009 mutual agreement was reached that their contract would be terminated on the 4 January 2009. BTU Maintenance Limited was appointed on an interim basis by the authority to provide the building fabric responsive repairs and minor project works on the 5 January 2009 until 30 September 2009.

Following continuing problems with SCL (London) Limited their contract was terminated on 7 October 2008. Following dialogue with BTU Maintenance Limited they were appointed on an interim basis to provide the electrical responsive, planned maintenance and project work on the 1 October 2008 to replace SCL and ensure the Council had continuity of electrical service provision. This contract expired on 30 September 2009.

BTU was able in both instances to TUPE staff who had previously worked for SCL and WDS on the Council contracts. This had enabled BTU to provide continuity of workforce and a seamless service to service users.

BTU was now responsible for providing cyclical servicing, responsive repairs and project works for mechanical, electrical and building fabric services. In order to deliver an improved responsive service it was agreed with BTU that they would offer a comprehensive help desk service and call handling of responsive repairs. BTU took over this function on 5 January 2009. They now delivered all the services from the Council's Denmark Road offices and service users now had the option to report repairs via a dedicated free phone number and email address.

BTU had supported the Council in its ambition to implement an effective service delivery through improved communication, co-operative team working and a continued desire to improve performance and deliver value for money. BTU had also created an asset register of mechanical and electrical plant and equipment, enabling them to develop effective maintenance programmes and deliver improved maintenance to ensure the buildings the Council and public occupied were operated safely and in a fully compliant manner.

These key service benefits had been recognised resulting in the appointment of BTU to provide the electrical and building fabric services.

The scope of works now undertaken by BTU was far greater than they were originally appointed. As a result the Council was able to lawfully extend their contract for a further six months i.e. until March 2010, but not beyond this date.

The process of undertaking a review of the existing contracts and developing arrangements was a protracted process, complicated by the need to comply with the European Union Procurement Directive. It would not therefore be possible to have the new arrangements in place by September 2009. It would take nine months to complete the procurement, and any new contractor would require a lead-in period of at least two months.

A Delegated Decision Notice would be submitted to seek approval to extend BTUs contract from 30 September 2009 to 31 March 2010 in order to facilitate procurement of new contract arrangements.

Resolved: That the report be noted.

345. HERITABLE BANK AND TREASURY MANAGEMENT - UPDATE ON NEW CRITERIA

Further to Minute 1109/08, the Committee considered the Executive Head of Financial Services report on progress on the operation of the Council's revised criteria for lending. The report also commented on the Audit Commission report on English local authorities and the Icelandic banks and the House of Commons Treasury Committee report on the Icelandic Banking Crisis. Copies of both reports had been placed in the Member's Room.

Overall the Audit Commission found that the majority of councils acted properly in managing their investments and were alert to risks. Most local authorities with exposure to Icelandic banks had been following the CIPFA code, but the Audit Commission found that the CIPFA guidelines should be strengthened, for example by emphasising the need to consider risks associated with countries or sectors as well as institutions. A summary of the report and the recommendations from the report were submitted. The Committee considered the recommendations for local authorities and agreed that they were addressed by the changes Sutton had made to treasury management lending criteria and practices, subject to the recommendation below on member training.

The House of Commons Treasury Committee's report had a much wider focus and considered the impact of the Icelandic banking crisis on local authorities, charities and British citizens.

Since the adoption of Sutton's revised lending criteria in December 2008 financial markets had continued to be turbulent. There had been frequent changes in the credit ratings and outlook for individual banks and also in the sovereign ratings and outlook for some countries.

In the UK there had been progressive downgradings for Royal Bank of Scotland (RBS) and for LloydsTSB/Bank of Scotland as the extent of their bad debts and need for Government support became apparent. The Council had detailed discussions with Sector, the Council's treasury advisors, on this and concluded that the reduced credit ratings reflected the need to rely on Government support. Since this support was readily available from the UK Government with a sovereign risk of AAA, the credit risk dynamics for these institutions had actually improved since they took on the credit worthiness of the Government itself. The Council had therefore continued to deal with these institutions on the basis that they fell within the Council's investment strategy category of 'UK guaranteed institutions.' Sector had also changed its creditworthiness methodology to reflect the position of these 'semi nationalised' banks.

During the period there had been continuing negative commentary on the creditworthiness of Irish banks and the support available to them from the Irish Government. On 8 January 2009 Sector advised clients not to place new deposits with Irish Banks. Currently the only remaining investments were £6m of long-term deposits with Depfa Bank that was Irish registered but supported by the German government. These investments were due to mature within the next month.

The distribution of the Council's investments at 31 March 2009 was reported to the Committee. The vast majority of the investments were with UK institutions. The introduction of the revised criteria had given helpful flexibility to the Council's lending but because of the turbulent nature of financial markets only very limited use had been made of overseas banks.

During this period the bank rate had fallen from 5% in September 2008 to 0.5% in March 2009. After some delay due to the lack of liquidity in the system, actual interest rates had also fallen and typical rates obtainable currently were below 1% for short term loans and around 1.5% for durations of several months.

Sector had recently reviewed their methodology. From April their colour coding system for assessing credit risk would be based on credit ratings from Fitch and Moody, overlaid by a factor based on the institution's credit default swap (CDS) spread. This would give either the same or a revised colour depending on how the CDS spread varied from the benchmark. It was anticipated that this methodology would be more responsive to changes in circumstances.

Sector were also reducing the suggested maturity (duration) limits from the allocated colours to reflect the continuing volatility of financial markets.

The Committee were informed that there was little fresh information on Heritable Bank to report until 17 April when Ernst and Young were due to provide a six monthly report to creditors on the progress of the administration. This was expected to provide some information on the likely timing and amount of dividends to be paid to creditors.

Resolved: (i) To note the progress on the operation of the revised lending criteria.

(ii) To receive treasury management update reports at each meeting of the Committee.

(iii) That a representative from Sector be invited to a future meeting of the Committee.

(iv) That The Executive be recommended to include treasury management in the financial induction training for members of The Executive and this Committee after the local Council elections in May 2010 and treasury management training be provided as necessary in the interim, if the roles of leading members change.

346. WORKPLAN 2009/10

The Committee considered its workplan for 2009/10.

Resolved: That the workplan for 2009/10 be agreed as follows:-

18 June 2009

Annual Review of the Audit Committee 2008/09

Internal Audit Full Year Report 2008/09

(a) CIA Audit Opinion 2008/09

(b) Anti-Fraud Review 2008/09

(c) Data Quality Review 2008/09

(d) Key Systems Review 2008/09

Audit and Inspection Plan for 2009/10

Annual Governance Statement 2008/09

Risk Management Annual Review 2008/09

Treasury Management

(a) Annual Report 2008/09

(b) Update on Heritable Banking Deposits

2008/09 Pension Fund Plan

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Revenue & Customs Review on Directly Paid Persons
– Progress Report
Update on Corporate Area Assessment

24 September 2009

Audit of Accounts 2008/09
(a) Report of Executive Head of Financial Services
(b) Report of Council's Auditor
(c) Statement of Accounts 2008/09
Treasury Management – Update on Heritable Banking
Deposits
Use of Resources – Progress Report

17 December 2009

Use of Resources 2009 Scores
Internal Audit Half Year Report 2009/10
Treasury Management
(a) Half Yearly Monitoring Report
(b) Update on Heritable Banking Deposits
External Auditor's Data Quality Assessment 2009
Insurance Review 2009

22 April 2010

Review of Corporate Governance 2009/10
To consider the Audit Commission and external auditor's
annual letter, other relevant reports, and the report to
those charged with governance. (Use of Resources).
To agree work plan for 2010/11
CAA Use of Resources 2009 Score
Treasury Management update

**347. REFERENCE FROM THE SUSTAINABLE COMMUNITIES SCRUTINY
COMMITTEE**

33/09 Value for Money – Road Improvement Scheme

Resolved: To note.

348. APPOINTMENT OF CHIEF INTERNAL AUDITOR

The Strategic Director of Resources informed the Committee that David Dobbs from Baker Tilly had been appointed as the Council's Chief Internal Auditor.

The Strategic Director also said that this could be the last meeting that Simon Bailey, the Council's Interim Chief Internal Auditor would be attending.

Resolved: The Chair thanked Simon for all his support and his contribution to the Committee and for always giving the Committee a balanced view and wished him well for the future.

349. VOTE OF THANKS

The Chair thanked members and officers for their contributions to the meetings over a very effective year.

The meeting ended at 9.25 pm

Chair:

Date:

