MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
22 September 2011 (7.30 - 9.20 pm)

Present:

COUNCILLORS:

Conservative Group	Georgina Galpin (in the Chair) Lesley Kelly (part of meeting only), Roger Ramsey, Frederick Thompson and Damian White
Residents' Group	Clarence Barrett
Labour Group	Paul McGeary

Apologies were received for the absence of Councillor Osman Dervish.

Unless otherwise indicated all decisions were agreed with no vote against.

Through the Chairman, announcements were made regarding emergency evacuation arrangements and the decision making process followed by the Committee.

11 MINUTES OF THE MEETING

The minutes of the meeting held on 21 June 2011 were agreed as a correct item and signed by the Chairman.

12 UPDATE ON OBJECTION TO ACCOUNTS ACTION PLAN

The Head of Housing and Public Protection provided an update on the recovery of costs in relation to the provision of TV aerials in the housing stock, the recovery of costs for other services through service charges and the on-going Tribunal action in the case of Mr M (leaseholder).

The Committee were reminded of the background to these issues. Back in 2010 Mr M complained to the Council's auditors PricewaterhouseCoopers (PWC) regarding the way in which building insurance charges were levied, and the way in which charges were levied for access to TV and satellite access points.

Whilst PWC were satisfied that the charges on buildings insurance were reasonably calculated and reflected the costs incurred by the Council, they had concerns regarding the charges relating to TV/Satellite access points, They found that the Council was lawfully entitled to levy the charge. However, in 2005/6 the basis of recharging to leaseholders changed, but there was insufficient documentary evidence retained to explain how that decision had been arrived at. Also, PWC were concerned to note, that the full costs of the service were not being recovered and that the income from tenants and leaseholders did not cover the full charge. PWC recommended that this charge be reviewed.

Since the Council had received the letter from PWC officers had been proactive in tackling all the issues raised. Meetings had been held with the contractor responsible for the TV/satellite aerial points as a result of which the contractor, Surtees, has deleted the charge for the Mardyke Estate and agreed to charge only one amount per address, even where the address has more than one point. Finally officers have agreed a schedule of those properties which receive the service. These changes had lead to a reduction in the costs. Officers had drawn up a plan to extend the charge to all residents on the schedule of addresses as some 664 tenants and 391 leaseholders had been wrongly omitted. As a result of these actions the amount recovered in service charges would rise and should, in time, cover the contract costs. Increases in the amount we could charge any individual tenant were however constrained by rent restructuring rules and there might be a delay in achieving full recovery as new charges were phased in.

In response to other matters raised by PWC officers had started a comprehensive review of the recovery of other costs of services provided to tenants and leaseholders. Following discussions with residents the charges for Caretakers, Neighbourhood Wardens, fixed CCTV and bulk refuse collection had been adjusted so the charges for these services were fully recovered.

The current position in respect of other heads of charge was provided to the Committee. All reviews will seek to ensure fairness between tenants and leaseholders and will be subject to consultation with residents.

As previously advised the Council has appealed against the Leasehold Valuation Tribunal (LVT) decision in 2010. The Upper Tribunal have indicated that they will remit the case back to the LVT for a fresh hearing. The Council will appoint a barrister to present the Council’s case which is likely to be heard in early 2012.

Efforts had been made to collect benchmarking data on the cost of the TV element of the Surtees contract but given the variety of ways in which landlords provide this service it has not been possible to obtain a definitive position. However it did appear that the cost of our contract was higher than average. Legal advice had originally been obtained about the possibility of terminating the contract, however, the contract documents were ambiguous. Further papers had been found and fresh advice was being sought. The Committee asked to be kept informed of the outcome of the legal advice.

PWC advised the Committee that they anticipated Mr M taking them to the High Court when he received their response to his latest objection to the accounts.

In the light of the progress made by officers in responding positively to the PWC recommendations it was AGREED that officers now be asked to report verbally to every other meeting on progress with the contract and the appeal to the LVT.

13 UPDATE ON PSL

The Head of Housing and Public Protection informed the Committee on the current position with the arrears on Private Sector Leased (PSL) accommodation. The Committee were advised that the Council have a duty to re-house and the 810 units of PSL accommodation help meet this statutory duty. In the year ended 31 March 2011 the PSL team had collected 96.5% of the due rent. This rate of collection compared favourably with the collection rate for Council Tax and Council housing rents.

Arrears at 5 September 2011 owed by current tenants amounted to £544,577 with an in year collection rate of 94.1%. Additional resources had been provided to the PSL team to tackle this problem and the effectiveness of the response was being assessed on a weekly basis.

Figures for arrears left by former tenants were also provide to the committee and these showed that despite additional arrears arising during the year the total amount of outstanding arrears had decreased.

The Committee were advised that the PSL scheme was a cost effective method of providing temporary accommodation with the Council making a surplus on this provision. However this position may change with the Government proposals for changes in 2013/14.

Officers advised the Committee that Internal Audit were now comfortable with the new procedures. The original concern was that the level of arrears was not being tackled satisfactorily. This situation has now been addressed.

Given that the Debt Management Board regularly monitor the level of arrears it was AGREED that officers no longer need to report on this matter to the Audit Committee.

14 ANNUAL STATEMENT OF ACCOUNTS 2010/2011

The Statement of Accounts for 2010/11 were subject to audit by the Audit Commission's appointed Auditors, PricewaterhouseCoopers, and Committee and the Group Director Finance & Commerce to sign and date the statement.

Copies of the Statement of Accounts had been circulated prior to the meeting and members of the Committee had been briefed on the Statement of Accounts, its purpose and the key issues arising.

Havering Council was a large and wide ranging organisation whose goals were:

- To ensure a clean, safe and green borough;
- To achieve excellence in education and learning;
- To provide opportunities for all through economic, social and cultural activity;
- To value and enhance the lives of every individual; and
- To deliver high customer satisfaction and a stable Council Tax.

The Statement of Accounts included all the financial statements and disclosures required by statute. These statements were as follows:

- Comprehensive Income and Expenditure Statement (C I & E);
- Statement of Movement in Reserves;
- Balance Sheet;
- Cash Flow Statement;
- Housing Revenue Account;
- Collection Fund;
- Pension Fund;
- Group Comprehensive Income and Expenditure Account;
- A Reconciliation of the Single Entity Surplus or Deficit for the year to Group Surplus or Deficit;
- Group Statement of Movements in Reserves;
- Group Balance Sheet; and
- Group Cash Flow Statement.

The accounts had been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the *Best Value Accounting Code of Practice 2010/11,* supported by International Financial reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

The Code set out the proper accounting practices required by statute to be followed in preparing the statement of accounts. The principal changes which have been made to Havering's accounts since 2009/10 were summarised as follows:

- Accruals have been raised for sort term accumulating absences (e.g. unpaid leave);
- A number of operating leases have been reclassified as finance leases;
- Revaluation gains in asset values have been credited to the C I & E Account where they match a previous impairment loss; and
- The net assets/liabilities of Foundation and Voluntary Aided Schools have been removed from the Council's Balance sheet. The related revenue transactions of schools have also been removed from the C

I & E and have been replaced with the Council's funding obligations.

The Committee were advised that prior year adjustments had been made to the 2008/9 Balance Sheet and the 2009/10 comparative data as disclosed in the accounts to ensure compliance with IFRS.

Officers responded to all members questions and where they were unable to provide all the information they offered to e-mail the full information to all members following the meeting.

The Committee:

1. **Approved** the Statement of Accounts without amendment;
2. **Noted** that the audited accounts must be published by 30th September 2011.

15 **REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260**

PricewaterhouseCoopers (PWC) the Council's Auditors had issued a report to those charged with governance in accordance with ISA 260. By letter dated September 2011 PWC had indicated that they expected to be able to issue an unqualified audit opinion on the financial statements on 26 September 2011.

PWC had identified two issues which they considered to be significant matters. These were:

- The conversion to International Financial Reporting Standards ('IFRS'); and
- The valuation of the Authority's properties.

At the time PWC had drafted their report they had completed the audit, subject to the following outstanding matters:

- Review of the final draft of the accounts;
- Approval of the financial statements and letters of representation;
- Confirmation of any outstanding legal matters from the Monitoring Officer; and
- Completion procedures including our review of subsequent events.

ISA 260 required PWC to report on any audit adjustments, whether or not corrected by the Authority, that have, or could have, a material effect on the financial statements. They identified one error from their audit of the financial statements, above the £250,000 threshold, that had not been adjusted for by management. This was technical in nature and had no impact on the General Fund Balance. It was an isolated error that arose in the course of the IFRS adjustments posted to the accounts and did not represent a fundamental issue with the Authority's accounting processes for property, plant and equipment.

Officers informed the Committee that they had drafted a Letter of Representation as required by the regulations. The draft letter was circulated to members for consideration and no matters were raised.

The Committee **noted** the report and the content of the Letter of Representation.

16 **RESPONSE TO AUDITORS: REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260**

The Financial Services Manager submitted a report outlining management's response to the report from PricewaterhouseCoopers (PWC). He advised the Committee that the Council had worked closely with PWC during the detailed project plan for International Financial Reporting Standards (IFRS) implementation and in supporting the audit of the draft accounts. The work with PWC during the IFRS project plan had contributed to a smooth transition to IFRS based accounting. Officers had noted that one unadjusted error had been identified. As a consequence, the Council's Property, Plant and Equipment had been under estimated by £3m, or less than 1% of the net book value as part of the work for 2011/12. This had however had no impact on the net revenue out-turn on the level of usable reserves.

The Committee were also informed that the Council's depreciation policy had been re-written in 2010/11 in response to the changes required by the IFRS implementation. Officers had worked closely with internal and external valuers and had welcomed the opportunity to discuss the revised policy with PWC throughout the IFRS implementation. In common with most other authorities, the Council had adopted a de-minimus threshold below which assets were not componentised. It was understood that the external valuers had adopted a similar approach with other clients.

In 2011/12 a further tranche of assets will be revalued. As such, some assets might require componentisation: others will fall below the de-minimus threshold. Officers intended to discuss the policy with our Valuers and would discuss any proposed changes in policy with PWC at the earliest opportunity.

The Committee **noted** officers responses to PWC.

17 **INTERNAL AUDIT PROGRESS REPORT**

Officers advised the Committee that as at the end of June, (Quarter 1), 13 assignments were in progress but none had reached the final report stage. the work in progress included:

- School Audit – Brady Primary & Nelmes Primary.
- Probity Audit – St Kilda's Children's Centre.
- Computer Audits – Network Infrastructure, Enterprise Project and BACs IP.

- Risk Based Systems Audits – Complaints, Supply Chain Resilience, Disabled Facilities Grants, Commercial Property, Non Domestic Rates and Public Protection.
- Substantive Testing – Internal Shared Services.

The team had reviewed the grant files for two grants: Rainham Bus Interchange and Play Capital and, as required by the funding body, provided assurance that the Council had complied with the requirements set out in the grant conditions.

The annual review of the Council's Money Laundering Arrangements had also taken place. The Council had in place arrangements, outlined in a strategy and policy statement, to reduce the risk of its services being exposed to Money Laundering, be party to terrorist financing or recipients of the proceeds of organised crime generally.

The Council was not considered, in legislation, to be an organisation at high risk of exposure to this activity, however its obligations to the community were clear and in the current economic climate the risks the organisation faced from increased criminal or illegal money lender activity were increased.

The Internal Audit Team had received no money laundering reports in the period April 2010 to March 2011.

Officers had provided details of the proposed restructure of the Internal Audit team.

Details of the changes to the agreed Audit Plan were provided together with an update on all outstanding recommendations.

The Committee noted the report.

18 FRAUD PROGRESS REPORT

The Committee received a report on the work of the Benefit Investigation Team from 1st April to 30th June 2011. Previously the Committee received separate reports from the Benefits Investigation Team and the Internal Audit Fraud team. In the future the Committee will receive one report each quarter following the decision to change the line management for the Benefits Investigation Team so they report to the Internal Audit and Corporate Risk Manager. This will result, via a planned future restructure, in the creation of a Corporate Fraud Team.

Officers informed the Committee that from April 2013 it was proposed that Local Authority benefit fraud powers would be removed and a centralised fraud team would be formed within the Department of Work and Pensions. The Committee expressed concern that this might lead to a conflict in the future.

The Committee were informed that two additional posts had been established for two years, funded by homelessness grant money, to tackle Housing Tenancy Fraud. Since the posts were established they have received 40 referrals for investigation.

Details of all referrals to both teams were provided for quarters 3 & 4 in 2011/11 and quarter 1 0f 2011/12. The significant increase in referrals to the benefit team from external organisations in quarter 1 was due to National Fraud Initiative matches and outcomes from the single person discount exercise. Over this period the Benefit Fraud Team had received 518 referrals.
23 administrative penalties, 30 cautions and 26 prosecutions had been issued in the same period.

The Committee received details of two successful cases prosecuted by the Benefits Fraud Team, and information was provided of the sentencing af a significant benefit fraudster to 18 months prison yesterday.

The Committee asked that in future the amount of money recovered be included in the report.

Over the same period the Internal Audit Fraud Team had received 27 potential fraud reports and had resolved 44 cases, one of which had been referred to the police for prosecution. However, the Crown Prosecution Service had decided not to prosecute.

The report was **noted**.

19 UPDATE ON THE FUTURE OF THE AUDIT COMMISSION

Officers provided a verbal update on the future of the Audit Commission. The Department of Communities and Local Government had indicated that the Audit Commission would be split. The in-house Audit Practice which currently undertakes the majority of audits for local public bodies will be hived off and the work transferred to the private sector by outsourcing contracts.

The Commission's Board has agreed this approach and was carrying out a procurement process to give private sector bidders the chance to compete for the Commission's audit work. This would mean all of the Commission's in-house work would be outsourced in time for the audit of 2012/13 accounts.

The Audit Commission would remain in place to oversee the contracts and other statutory functions but would be significantly smaller following the outsourcing.

The Audit Commission had split England into 4 regions, with London being split in to 2 sub areas, North and South, including Surrey and Kent. Tenders need to be submitted by 16 December with contracts awarded in the week commencing 20 February 2012.

There was no immediate impact for the Council.

The Committee **noted** the report.

20 **TREASURY MANAGEMENT UPDATE**

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

The Financial Services Manager presented the report that set out the context that was part of the Chartered Institute of Public Finance and Accountancy *(*CIPFA*)* revised Code of Practice for Treasury Management.

The revised Code suggested that Members would be informed of Treasury Management activities at least twice a year or preferably quarterly. The report ensured the Council was embracing Best Practice in accordance with CIPFA's revised Code of Practice.

The details of the report were outlined to the Committee, including that the Council had remained within its prudential indicators limits.

The Committee **NOTED** the report

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Chairman
21st December 2011