

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
19 February 2014 (7.00 - 8.45 pm)**

Present:

COUNCILLORS:

Conservative Group	Georgina Galpin (in the Chair) Frederick Thompson (Vice-Chair) and Roger Ramsey
Residents' Group	Clarence Barrett
Labour Group	Denis Breading

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

37 MINUTES OF THE MEETING

The minutes of the meeting held on 3 December, 2013 were agreed as a correct record, subject to the correction of the spelling 'sumaaries' to 'summaries' in minute no. 30, and signed by the Chairman.

38 2012/2013 AUDIT REPORT OF GRANT CLAIMS AND RETURNS

PricewaterhouseCoopers (PWC) submitted their report on the audit of Grant Claims and Returns for 2012/13. This year just four claims were subject to audit:

- Housing and Council Tax Benefits Subsidy;
- Teacher's Pension;
- National Non-Domestic Rates Return; and
- Pooling of Housing Capital Receipts.

Two errors had been found in the Housing and Council Tax Benefit claim. Extrapolated across similar cases the total error was estimated to be £9,571 out of a claim of £108,040,718. Officers had accepted the recommendation and would be continuing with the regular training to ensure similar errors do not occur in future years.

The Teacher's Pension claim was identified as not being compiled correctly as it did not reconcile to the payroll system. Teacher's had initially been paying pension contributions at the incorrect tiered rate. This had been identified and corrected in the March 2012 payroll. However, the return had been compiled on a monthly basis so showed contributions reflected within incorrect rates. The Council had identified these incorrect entries and amended the return accordingly. Officers had explained why the problem occurred and gave an assurance that when One Oracle was implemented in April, 2014 there would be a report produced to make recording and reporting the monthly bandings over to Teacher's Pensions easier.

The initial testing of empty premises entries had identified five properties that did not receive an inspection before relief was issued. Officers had explained that they had found an integrity error within the Academy software which had omitted premises from the inspection routine, although this had subsequently been rectified.

Further testing had identified a further 22 properties that did not have an inspection or otherwise, to confirm that they were indeed empty.

PWC had recommended that empty property inspections were performed before the issuance of the relief. Officers did not believe it was always practical to visit a property prior to the award of the unoccupied relief. This was not a practice adopted by other authorities. They did accept that it was desirable and to establish a base position had arranged for an external inspection service to undertake a review of every property shown as unoccupied as at the middle of December, 2013.

Exchequer Services had significantly enhanced the number of inspectors available across the Revenue service and would be introducing a regime to ensure that every empty property was visited in a 6 month cycle.

The cost of this part of the audit had fallen for the fourth year in succession, the cost now being £43,025.

We have **noted** the report and expressed our satisfaction that the response of officers to the recommendations was appropriate.

39 **ACCOUNTING POLICIES 2013/14**

Officers had revised the Accounting Policies which would be applied during the financial year 2013/14. The full policies would be included in the statement of accounts.

The application of most accounting policies was consistently applied from year to year. Changes were required when new accounting regulations were introduced or updated or if there was a significant change within the financial activities of the Council.

We must follow the requirements of International Accounting Standard 8 when selecting or changing accounting policies, adopting the accounting treatment and disclosing changes in accounting policies, estimation techniques and correcting errors.

There was a requirement to disclose expected impact of new standards. They would only result in a change in accounting policy if they were required by the code and would result in the financial statements providing reliable and more relevant information.

It was for an authority to select the accounting policies that were most appropriate to its particular circumstances. Best practice required council's to regularly review the accounting policies adopted to ensure that they remained appropriate and gave

due weight to the impact of a change in accounting policy to ensure comparability between accounting periods.

We have **noted** that there were no significant amendments proposed in the draft code of practice on local authority in the United Kingdom 2013/14.

40 **CLOSURE OF ACCOUNTS TIMETABLE 2013/14**

We have received an update on progress with the closure of the 2013/14 accounts. A number of key issues needed to be addressed. These were:

a) Public Health Transfer

Public Health services in Havering had moved to the Council in April 2013. 2013/14 would be the first year of reporting with Public Health. A new Service Expenditure Analysis (SEA) for Public Health had been added to the Service Reporting Code of Practice (SeRCOP).

b) Council Tax Benefit System reform

The Welfare Reform Act 2012 had abolished the National Council Tax Benefit scheme from April 2013 and the Local Government Finance Bill enabled Local Authorities to design their own local council tax support schemes. The accounting disclosures needed to be updated in order to reflect these changed arrangements.

c) Localisation of Business Rates

The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013. At the same time, business rate collection had been brought in house following the termination of the contract with Barking and Dagenham. There were potential risks of managing these new arrangements at closedown and staff involved in the process needed to be aware of the revision in reporting requirements.

d) One Oracle Project

The likely date for the implementation of One Oracle (OO) was April 2014. Key staff involved in the closedown programme would also be required to carry out key elements of the OO implementation programme. This gave rise to a significant risk of resources being diverted from both the closure and audit of accounts in order to support OO implementation and provide training on Oracle Projects. The Closedown programme had little scope for slippage and was driven by statutory closedown and publication requirements

e) One Source

The One Source project set to be implemented in April 2014 might put an additional drain on staff time involved in the closure process.

f) Pension Fund Local Infrastructure Procedures

It was anticipated that the Council would make a one off investment in the Pension Fund which must be made by 31 March 2014 in order to meet the requirements of the external actuary. In order to facilitate this arrangement, the Pension Fund had created a Local Infrastructure portfolio and approved the associated governance arrangements. However, qualifying schemes would need to be identified and formally approved prior to year end.

g) Infrastructure Assets

Infrastructure assets included roads, highways, bridges and street furniture. These assets were currently recorded on the Balance Sheet on a Depreciated Historic Cost (DHC) basis. CIPFA's code of practice on Transport Infrastructure Assets included a requirement to record such assets on a Depreciated Replacement Cost (DRC) basis. In order to comply with the code it would be necessary to identify all such assets, with appropriate measurements and then establish the cost of replacing these assets at current prices. Valuations would need to be updated regularly in order to ensure compliance with The Code.

The implementation of Infrastructure accounting had been delayed by DCLG and it was proposed that it be introduced in 2015/16 with a dry run in 2014/15. However, there would be a need to disclose comparative data in respect of the 2014/15 accounts and a re-stated Balance Sheet as at 31 March 2013 within the 2015/16 published accounts. Officers had begun the process of collecting the necessary valuation data and were working towards the achievement of these deadlines

The Whole of Government Accounts (WGA) return included a requirement to record infrastructure assets on a Depreciated Replacement Cost (DRC) basis in 2012/13 (albeit in a more summarised format). The 2013/14 return was expected to require additional disclosures. However, the collection of data for these purposes would assist in developing the data requirements for the statutory accounts.

h) Audit and Publication

Despite the pressure on resources from servicing One Oracle, One Source and other initiatives, The Authority needed to ensure that it meets the statutory deadlines for closedown. Failure to do so would result in additional audit scrutiny, additional cost, and an adverse effect on The Authority's reputation.

In view of these additional pressures it was essential that the timetable was strictly adhered to. Steps would also be taken to encourage staff to complete closedown tasks earlier than timetabled or to carry out preparatory work in advance of year end.

Last year the external auditors raised a number of matters. Progress against these matters was as follows:

- **Treatment for construction and transfer of academies**

The Auditor's had proposed an alternative approach than that adopted by the Authority with regard to the treatment of expenditure incurred in building the

Draper's Academy. However, it had been agreed that there was a lack of clarity in relation to the correct accounting treatment and it had been noted that the treatment of Academy Schools was subject to on-going consideration by CIPFA/LASAAC. As the two approaches were not materially different the Auditor's were not minded to challenge the Authority's approach. No similar transactions were expected to arise in 2013/14.

- **Judgements and Accounting Estimates - Valuation of Property, Plant, Equipment (PPE) and Investment Properties**

The Auditor's considered that the assumptions used by the Council's external valuers WH&E, to value PPE to be too simplistic. They had recommended that the approach for the 2013/14 accounts be discussed and an approach agreed between their internal valuers, WH&E and the Council's internal property team. These discussions were on-going and would inform the 2013/14 valuation process.

- **Payroll Reconciliation**

During the 2012/13 financial year the Authority had been unable to complete the payroll reconciliations for the year end in a timely manner. The Auditor's had recommended that the payroll reconciliation should be reconciled jointly by the payroll and finance teams. ISS management had discussed with the Auditors the format of the reconciliations and had agreed a revised format to be put in place for 2013/14. The automation of the payroll reconciliation report was still in development, therefore, ISS was still reliant on Business Systems resources to produce adhoc reports.

Officers advised that the One Oracle suite did not include a system generated report to resolve this issue so it would continue to be a manual process

We have **noted** the report.

41 **INTERNAL AUDIT PROGRESS REPORT**

We have received a report detailing the work of the Internal Audit team during the period 1 October, 2013 to 28 January, 2014. Fifteen reports had been issued during the period, 8 system audits and 7 school audits. Detailed reports were provided elsewhere on the agenda.

Details of outstanding recommendations were also provided for our perusal. We were informed that two of these recommendation where management had actually rejected them, had on follow up been fully implemented.

For our next meeting officers would be reporting on the outcome of 10/12 systems audits of key financial systems.

We have **noted** the report.

42 **INTERNAL AUDIT SYSTEMS REPORT SUMMARIES 1 OCTOBER, 2013 TO 28 JANUARY, 2014**

We have received details of the eight system audits finalised during the period 1 October, 2013 to 28 January, 2014. The eight systems and the level of assurance provided were:

SYSTEM	ASSURANCE
Emergency Assistance Scheme	Limited
Temporary Agency Worker Contract	Substantial
Compliance With Corporate Policy: Sickness Absence	Limited
Traffic & Parking Control: Cancellation Of Penalty Charge Notices Follow Up Audit	Substantial
School Admissions Forensic Review	N/A
JCAD LACHS Application System Review	Substantial
Network Permissions Follow-Up Audit	Substantial
Axise Pension System Hosting Review	No Assurance

We had some concerns regarding the Emergency Assistance Scheme. It was unclear from the report what the terms of the sub-contract been the Disablement Association of Barking and Dagenham (DABD) and Liberty Credit Union. Also was Liberty Credit Union recovering monies in their name or the Council's?

Whilst outside the scope of this report we were assured by officers that any underspend in this area could be carried forward. Also the contract with was up for renewal in July, 2014.

The results for compliance with Corporate Policy: Sickness Absence were better than anticipated, although Human Resources had requested the Internal Audit Team to revisit next year.

Newham's IT team had undertaken the audit of the JCAD LACHS (Local Authority Claims Handling System) Application System Review. Management do not agree with all the recommendations. For example the issue of passwords is not significant as only four members of staff have access.

Management had issues with the system audit of the AXISE Pension System. This service had been brought back in-house in December and the report was therefore out-of-date when published. The resources used to carry out this audit could have been better utilised.

Officers felt that we were still in the early stages of working with Newham in this area and we need to ensure there is better knowledge of how both Councils work to ensure the work is of value.

We have **agreed** that a review of the new system should be included in next year's work plan.

We have **noted** the outcome of the eight system audits.

43 **INTERNAL AUDIT SCHOOL FINAL REPORT SUMMARIES 1 OCTOBER, 2013 TO 28 JANUARY, 2014.**

We have received a report on the outcome of the seven school audits completed in the period 1 October, 2013 to 28 January, 2014. The following audits were completed:

SCHOOL	ASSURANCE
• Broadford Primary School	Substantial
• Brookside Infant School	Substantial
• Crownfield Infant School	Substantial
• Dycourts School	Substantial
• Engayne Primary School	Substantial
• Harold Court Primary School	Full
• Whybridge Junior School	Substantial

These audits had raised no significant concerns. However, a number of common themes had emerged throughout the year and time had been set aside to work with the Local Management Service (LMS) in Children, Adults and Learning to review these. It is intended that LMS would follow up the recommendations of the Internal Audit Service.

We have **noted** the report.

44 **DRAFT INTERNAL AUDIT PLAN FOR 2014/15**

We have received the proposed Annual Audit Plan for 2014/15. This plan contains the type of audit which have been delivered in previous years, these comprise:

- **System and Compliance:** System audits were reviews of key financial, business and ICT systems and involved a full evaluation of the adequacy of controls and testing how they were operating in practice. Compliance audits focused on the testing element only and were designed to provide assurance that systems were working as intended. The work also included review of grants, contracts and procurement and audits of casework management in adult and children's social care.
- **Strategy:** To provide an assurance opinion on the Council's strategic approach to the management of core business processes.
- **Business Unit:** To provide an assurance opinion on the adequacy and effectiveness of arrangements to ensure the achievement of business plan objectives, specifically through the management of finance, people, performance and risk.
- **Risk Based:** To provide assurance on the arrangements in place to manage key business risks. These were the audits that focused on risks in service plans and the corporate risk register and were designed to provide management and members with assurance that appropriate steps were being taken.
- **System and Compliance:** To provide assurance to statutory officers and key stakeholders that key systems and processes were operating

as intended. This remained critically important during a period of change and would include work on the core financial systems.

The 2014/15 plan also included other assurance work as follows:

- Anti-Fraud and Compliance Programme: There would be on-going proactive testing of systems and processes to identify potential fraud and misappropriation, as well as potential non-compliance with policies and procedures.
- Schools: The audit provided assurance over governance and financial management in schools, to support Governing Bodies, the Local Authority and allow the Director of Resources to discharge his statutory obligations.
- Developing Systems: To provide early engagement on the development of new systems or processes and make recommendations to mitigate risks where appropriate. This applied not just to ICT systems but to new ways of working and the implementation of new structures and processes as part of budget delivery plans.
- Follow up Audits: The follow-up and reporting of recommendations issued in prior years.
- Advice and Guidance: Internal Audit provided on-going advice across the Council. Whether through attendance at working groups or responding to telephone enquiries this remained an area where early advice and support could help maintain a robust control environment.

We have **approved** the revised Internal Audit Work Plan for 2014/15.

45 **FRAUD PROGRESS REPORT 1 OCTOBER, 2013 TO 31 DECEMBER, 2013**

Officers had provided details of the work of the Corruption Fraud team during the period 1 October to 31 December, 2013.

Work has continued on developing a fraud aware workforce through an on-going programme of training. During quarter, training was provided to Adult Services Commissioning Team staff. This related to direct payments and the importance of internal checks and controls.

An eLearning programme has been introduced. This has been completed by employees from the Children, Adults and Housing, Public Health and Resources Departments.

In addition the team undertake proactive fraud work which comprises three elements:

- A programme of proactive fraud audit investigations;
- Co-ordinating the Authority's investigation of the National Fraud Initiative (NFI) data; and
- Following up the implementation of recommendations made in previous corporate fraud investigation and proactive audit reports.

During quarter 3 progress was made in three proactive investigations:

- Staff expenses;
- The re-employment of staff previously made redundant or dismissed; and
- Grants made by the authority.

The team's data matching work for the National Fraud Initiative was on-going and we anticipated that the results would be presented to our next meeting.

In addition to the above the team continued with its work on reactive fraud cases. At the start of the quarter it had 198 cases under review and received 14 referrals during the period. In 9 cases fraud was not proven but 7 were successful. This left 16 active cases at the end of the period.

The Benefits and Housing Tenancy Investigations team had been shortlisted for a national Fighting Fraud Award in December which recognised the efforts of those in the public sector who had done most to combat and prevent fraud. The team finished in the final three in the Collaboration category for working with police Safer Neighbourhood Teams and uncovering benefit fraud in excess of £2m.

The following provided details of the number of cases at the start and end of the period.

Caseload Quarter 3 2013/14						
Team	Cases At start of period	Referrals received	Referrals rejected/ overloaded	Cases of Fraud not Proven	Successful Cases	Cases at end of period
HB & CTS	442	181	50	71	31	471
HT	79	22	2	18	8	73
TOTAL	521	203	52	89	39	544

Details were provided of a number of successful prosecutions.

We have **noted** the report.

46 **DRAFT ANTI-FRAUD WORK PLAN 2014/15**

Officers provided details of the planned work of the Internal Audit Corporate Fraud Team for 2014/15. The draft Plan reflected the range of best practice principles for effectively tackling fraud within the London Borough of Havering. The range of activities were categorised as:

- Creating an Anti-Fraud Culture;
- Deterring Fraud;
- Preventing Fraud;
- Detecting Fraud;
- Investigations;
- Sanctions; and
- Redress.

This plan was a corporate fraud plan and therefore did not include coverage for Housing Benefit Fraud, Council Tax Support Fraud or Housing Tenancy Fraud

investigation. The introduction of the Single Fraud Initiative made the future remit of these areas uncertain.

The plan focused on the type of work to be conducted during financial year 2014-15 and informed a proactive detection work programme across the Council.

Outlined below are some areas which would form part of this programme over the coming three year cycle. These areas would be subject to on-going review, with changes made as required on the identification of emerging fraud risks or areas identified through proactive work undertaken, or reactive investigations root cause analysis work:

- Fraud within Procurement
- Fraud within the Payroll System
- Grant Fraud / Funding of Voluntary Organisations
- Blue Badge Fraud
- Education & Schools (including admissions)
- Public Health Services.

We have **noted** the draft work plan for the Corporate Fraud team.

47 L B OF HAVERING AUDIT PLAN

With the agreement of the Chairman the following report was considered as an urgent matter pursuant to Section 100B (4) of the Local Government Act 1972.

PricewaterhouseCoopers (PwC) had submitted details of their proposals for the 2013/14 External Audit Plan. PwC's audit risk assessment, strategy and approach was built on a firm understanding of how the Council operates. Their risk assessment had identified the following risks:

- Management override of controls – assessed as significant:
- Risk of fraud in revenue and expenditure recognition – assessed as significant. One element affecting this was the council's decision to take back in-house the collection of Business Rates. In the current economic climate there were a large number of appeals against the rating valuation.
- Savings Plans – assessed as elevated.

We have **indicated** that we were happy with the de minimis thresholds suggested by PwC. These were:

- Overall materiality – Main accounts - £11,200,000
- Overall materiality – Pension Fund - £9,200,000
- Clearly trivial reporting de minimis – Main Accounts - £500,000
- Clearly trivial reporting de minimis – Pension Fund - £400,000.

We have **noted** that the anticipated cost of the audit would be less than in 2012/13, although the precise figure was not yet known.

We have **noted** the report.

48 **EXCLUSION OF THE PUBLIC**

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.

49 **SURTEES CONTRACT**

Officers advised that the Council are continuing to negotiate with Surtees to achieve a solution which was acceptable to both parties. If this was unsuccessful a full report would be brought back to the committee.

Officers did advise that the door entry systems were being up dated as part of the decent homes programme.

We have **noted** the report.

50 **RISK BASED VERIFICATION**

Previously we had received a report on the introduction of a Risk Based Verification system. This had been in place since February, 2013 and officers had carried out a review to ensure the system was effective.

Details of proposed changes which would make the system more effective were provided and we have **agreed** that these be adopted and the revised policy **approved**.

The revised policy would come into force from 1 April, 2014.

51 **TREASURY MANAGEMENT**

We have received an update on the position of Treasury Management for the third quarter 2013/14. We have noted that the Council still have ample cash flow available but that this position would change towards the end of the financial year.

We have **noted** the report.

Chairman

