

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
21 December 2011 (7.30 - 9.05 pm)**

Present:

COUNCILLORS:

Conservative Group Georgina Galpin (in the Chair) Roger Ramsey and Frederick Thompson

Residents' Group Clarence Barrett

Labour Group Pat Murray

The Committee were advised that Councillor Pat Murray had been appointed as a replacement for Councillor Paul McGeary to serve on this Committee.

The Chairman advised the Committee of action to be taken in the event of emergency evacuation of the Town Hall becoming necessary.

There were no declarations of interest.

21 MINUTES OF THE MEETING

The minutes of the meeting held on 22 September 2011 were agreed as a correct item and signed by the Chairman, subject to the addition of Councillor Lesley Kelly to the list of members in attendance, for part of the meeting, and the correction to the title of minute 19 to read 'Update on the future of the Audit Commission.'

22 MATTERS ARISING

Further to minute 12 'Update on objection to Accounts Action Plan' officers informed the Committee that the appeal against the Leasehold Valuation Tribunal decision was scheduled to be heard on 4th May and therefore they would report back to the June meeting.

23 HOUSING BENEFIT FRAUD OVERPAYMENT REPORT

As requested at the last meeting (Minute 18) officers submitted a report detailing fraudulent housing benefit overpayments outstanding for the period 1 April 2010 to 31 March 2011. Officers advised that the total value of fraudulent overpayments raised in 2010/11 was £480,763.75. As at 31

March 2011 £288,836.58 was outstanding. A breakdown of this sum was provided.

The Committee thanked officers for the report and asked for additional information, in 6 months time:

- What was the total of outstanding Housing Benefit Fraudulent Overpayments;
- When was the last write off of overpayments, and how much was this for;
- How does Havering compare with similar Councils; and
- Did the level of fraudulent overpayments increase when Housing rents were increased?

24 ANNUAL AUDIT LETTER

The Committee received a report that updated Members on the external auditor's PricewaterhouseCoopers (PwC) annual letter for 2010/11.

The annual audit letter was a key summary of audit and inspection results by the Council's external auditor during the course of the year.

The Committee were informed that PwC had completed their work on an objection from a specified member of the public and a final response would be sent to him. He had not lodged an objection to the 2010/11 accounts.

The Committee **NOTED** the report.

25 CLOSURE OF ACCOUNTS TIMETABLE 2011/12

Officers reported on progress to date in preparing for the closure of accounts for 2011/12. The Council had successfully closed its accounts and prepared its Financial Statements on an IFRS (International Financial Reporting Standards) basis for the first time in 2010/11.

There were a number of technical changes required under The Code of Practice in 2011/12. However, the Council had undergone major re-organisational changes during the year including the replacement of its core financial systems. The priority for the closure programme was to ensure that all key activities had been captured in the timetable and roles and responsibilities identified and understood.

A number of key issues needed to be addressed during the 2011/12 closedown, these were:

- Infrastructure Assets – These include roads, highways, bridges and street furniture. Currently they were recorded on the balance sheet

on a Depreciated Historic Cost (DHC) basis. New guidance requires them to be recorded on a Depreciated Replacement Cost (DRC) basis in 2011/12. It was necessary to identify all such assets, with appropriate measurements and then establish a cost of replacing them at current prices. This needs to be done over a three year period with the Council able to make a minimum disclosure in 2011/12 and 2012/13 with full disclosure in 2013/14.

- Accounting for Academies – The net assets of Academy Schools would need to be removed from the Council's balance sheet.
- Foundation and Voluntary-Aided Schools – for 2010/11 all Foundation and Voluntary-Aided Schools were manually removed from the Council's accounts. In 2011/12 it would be necessary to ensure that these changes were embedded within the accounting and closedown arrangements.
- Internal Shared Services – The creation of the Internal Shared Services structure had brought with it a fundamental review of both the organisational structure and the financial systems. 2011/12 would be the first year closedown would be carried out using these new arrangements.

Progress against the matters raised by the external auditors in the Report to Management (ISA260) was explained by officers.

An assurance was sought from the auditors PwC that their work would not be affected by the Olympics. PwC advised that whilst they were involved in the Olympics none of the staff assigned to work with the Council were involved. Their concerns lay with ensuring that staff would be able to get from South London to Havering and contingency arrangements had been made.

The Committee **noted** the report.

26 **GOVERNANCE UPDATE**

The Committee were provided with a report which provided an update on arrangements to embed arrangements for Corporate Governance and on the production of the Annual Governance Statement. The report additionally provided an update on progress in addressing the issues raised in the 2010/11 Annual Governance Statement and the work of the officer Governance Group. An assurance was given that the framework and process to produce the Annual Governance Statement was fully embedded within the governance group's annual timetable and agenda.

Membership of the Governance had been reviewed and invitations extended across the organisation to ensure all Directorates were appropriately engaged with the Corporate Governance Agenda. Over the next few months the Governance Group were planning to review:

- Organisational Performance against the six principles of good governance;
- Assurances from external bodies;

- Issues coming out of audit work; and
- Mini Assurance Statement templates.

The Committee **noted** the report.

27 **INTERNAL AUDIT PROGRESS REPORT**

The Internal Audit and Corporate Risk Manager submitted a report detailing progress in delivering the approved audit plan in quarter 2 of 2011/12. During the quarter ending 30 September 2011 40% of the Audit Plan had been completed against a target of 35%. Six assignments had been completed with ten still in progress awaiting final report stage.

Details of the six completed system audits were provided, with five receiving a substantial opinion and one, in respect of Complaints receiving a limited assurance. Having considered the written reports and the presentation by officers the Committee raised questions concerning the following reports:

- **NDR (Non Domestic Rates)** – In April 2008 the Council entered into a three year agreement for the London Borough of Barking and Dagenham (LBBB) to discharge the Council's NDR function, with the option to extend the agreement annually. Whilst the day to day administration of the NDR function had been transferred to LBBB, responsibility for a number of NDR processes remained with the Council. Any accounts which were in arrears at the time of the agreement, and where a liability order had been obtained, remained the responsibility of the Council to recover. At that time the value of the debt was approximately £3m across 572 accounts. By July 2011 £1.1m had been written off and £400,000 received in payment. This left the Council with a debt of £1.5m. The recovery of these accounts had not been undertaken in line with Council requirements.

Delays in debt recovery could result in the debts being written off on the basis that the Council was statute barred from recovering them. No recommendation had been made because management had already implemented a team to review and resolve arrears on both Council Tax and NDR accounts. Historically write off figures were not reported to the Debt Management Board or the Governance Board. This was now a corporate requirement.

Officers informed the Committee that at the time of the audit a list of Business Improvement District (BID) properties was not available. This prevented any reconciliation to ensure that charges had been properly applied to all accounts.

The Committee **requested** a further report to the next meeting so they could have an assurance that the matters identified were now being undertaken correctly.

- **BACS Application** – The audit had found that invoices which should be paid within 30 from the date that they were received had not been paid on time and were two weeks in arrears, The Committee considered this to be a serious issue and **asked** for a report back to the next meeting so they could have an assurance that a process was now in place to ensure invoices were paid in a timely manner.
- **Complaints** – The Committee were advised that all six recommendations raised as a result of the 2009/10 Complaints audit had either been fully or partly implemented. All of those recommendations would, however, need to be revisited given the implementation of the new CRM system and the staffing changes resulting from the introduction of ISS and recent restructures.

Although the current audit had resulted in only three recommendations one was of high priority and the system had received a limited assurance. The Committee expressed their concern as complaints handling was a fertile area for the Ombudsman. The current system did not meet the objectives of a Corporate Complaints system, i.e. it did not help the Council target resources. The system was very process driven and officers needed it to focus on quality and to ensure that staff and management were suitably and appropriately trained.

The Committee **requested** a report back to the next meeting so an assurance could be given that the weaknesses identified had been addressed by management.

In addition to the system audits the Team had undertaken audits of two schools. One school had received a substantial audit, the other a limited opinion. In the latter case a member asked to be informed whether that school employed a bursar. The Committee were of the opinion that there was a serious problem with the school which had received a limited opinion. They were advised by officers that Social Care and Learning were monitoring the situation and they expected all the recommendations to be implemented by the end of the financial year. If the school had not taken up the option of a Health Check by Social Care and Learning the audit team would be carrying out a follow up inspection next year.

The report was **noted**.

28 FRAUD PROGRESS REPORT

The Committee received a report on the work on the Benefit Investigation Section and the Internal Audit Fraud Team from 1st July to 30th September 2011. It was advised that the Council was still awaiting further clarity regarding the planned creation of a single Fraud Investigation Service, particularly with regards to funding arrangements.

During quarter two 243 referrals had been received, just under half coming from the Data Matching exercise. The current workload was 361 cases, with 48 cases being concluded during the quarter.

Eighty-five living together cases had been referred to the benefits investigation team during the quarter but only 6 had been concluded. The Committee were concerned that more cases were not being resolved. Officers advised that these types of case were extremely difficult to prove and required a great deal of officer time to reach a conclusion.

The Committee were of the opinion that the various tables presented did not provide sufficient information. The Committee asked that the information be provided in a different format providing details of cases resolved, cases being investigated and cases closed for a rolling year.

Details of several successful cases were provided for the Committee's information.

Officers reported on the work of the Housing Tenancy Fraud Team who were working with both Homes in Havering and other significant Registered Social Landlords in the borough. Seventy-five cases had been referred to the Team in the period Aug-Nov 2011 and 6 outcomes achieved.

The report was **noted**.

29 **DEMISE OF THE AUDIT COMMISSION**

Officers informed the Committee that a conference had been held in October to consider the findings of the Department of Communities and Local Government Select Committee into the demise of the Audit Commission. The Select Committee had expressed concern about the lack of competition given the dominance of the 'big 4' companies,

The Government had indicated they would be issuing a response to the report and subsequent consultation early in the New Year.

The Council's own external auditors would not be immediately affected by the proposed change so it would be some years before the Council would need to go out to tender. This was a concern because the Council have never before been out to tender for the External Auditors.

The Committee **noted** the oral report.

30 **TREASURY MANAGEMENT UPDATE - QUARTER 2 2011/12**

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 were informed that in its current format the information provided in this report was out of date. The report was intended for the information of the Cabinet Member for Value and when he received it, it was current. The Cabinet Member indicated that if there were areas of concern he would ensure that these were brought to the Committee's attention.

The Committee **agreed** that in future the report should be an audit report of Treasury activity and should be specific and up to date.

Chairman