

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
29 February 2012 (7.30 - 8.58 pm)**

Present:

COUNCILLORS:

Conservative Group Georgina Galpin (in the Chair) Osman Dervish (Vice-Chair), Roger Ramsey and Frederick Thompson

Residents' Group Clarence Barrett

Labour Group Denis Breading

**Independent Residents
Group**

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

31 CHAIRMAN'S ANNOUNCEMENTS

The Chairman advised the Committee that Councillor Denis Breading had been appointed to serve on the Committee to replace Councillor Pat Murray. Councillor Murray had just attended one meeting when he replaced Councillor Paul McGeary.

The Committee placed on record their appreciation of Councillor McGeary's service on the Committee.

32 MINUTES OF THE MEETING

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

33 UPDATE ON OBJECTION TO ACCOUNTS ACTION PLAN

The Committee were advised that officers had been pursuing the options available to legally terminate the contract. The original Counsel's opinion had concluded that this would not be possible. However, when further papers were found Counsel had now concluded that it would be legally possible to terminate the contract. Officers were drawing up a termination letter and once the digital switch over had been completed in May 2012 officers would meet with Surtees to hand over the termination letter. The

biggest risk associated with this course of action was that Surtees would withdraw and at the same time remove the equipment they had installed. Counsel's opinion indicated that this was not an option open to Surtees.

In response to the auditors report officers had undertaken a comprehensive review of service charges over the past two years. This had culminated in the new charges been levied on tenants with effect from the recent rent review. One significant area was that approximately 2,000 tenants were now required to pay a service charge for TV points and grounds maintenance. Of the 2,000 letters sent to tenants to advise them of the charge, only 94 had resulted in a response.

PwC had been presented with a list of tenants who receive the TV service. They indicated that this satisfied their requirements, but they would not be checking the list, they just needed an assurance that the list existed.

With regard to Mr MacDonald the Council had appealed against the LVT decision and this would be heard in early May.

PwC advised the Committee that they had issued a final conclusion to Mr MacDonald's objection to the 2010/11 accounts. He was not happy with the conclusion and had exercised his right to appeal to the High Court.

The Committee **noted** the report.

34 **NDR (NON DOMESTIC RATES)**

The Head of Customer Services attended the meeting to provide the Committee with an update on his response to the Internal Audit report on Non Domestic Rates. The Committee were advised that of the five recommendations in the review three had been completed and two were being progressed.

Resources to strengthen the monitoring of the work being undertaken on the Council's behalf by London Borough of Barking and Dagenham were being increased. Furthermore, procedures were being reviewed and when agreed would be provided to the service providers.

The Committee **noted** the report.

35 **COMPLAINTS**

The Committee received an oral report from the Head of Customer Services on progress towards implementing the recommendations of the Internal Audit review of the corporate complaints process. The review had raised three recommendations. The response from management as explained by the Head of Customer Services was that all staff should receive up to date training not just complaints staff. The guidance on the Intranet had been updated.

The one area of concern remaining related to quality spot checks by management. This was not the sole responsibility of Customer Services and relied on Heads of Service to ensure spot checks were carried out. The Committee were concerned that no complaints were bypassing the CRM system. Officers were of the opinion that the spot checking would pick up any problems.

The Committee **noted** the report.

36 **EXTERNAL AUDIT 2010/11 AUDIT PLAN**

The Council's External Auditors, PricewaterhouseCoopers (PWC) had submitted their proposed External Audit Plan for 2011/12. The Committee were advised that the fee proposed for 2011/12 was £368,099, a reduction of nearly £10,000 on the fee for 2010/11. PWC advised the Committee that they proposed to treat mis-statements less than £500k as being clearly trivial.

PWC identified the following Financial Statement Risks which they would consider during the audit. These were;

- Fraud – management override of controls
- Fraud – Recognition of income and expenditure
- New financial system – Oracle E-Suite
- Depreciation expense may not be correctly treated in the accounts.

Additionally they would consider the risk that the savings plans identified by the July 2011 Cabinet might not be robust enough.

As requested by PWC the Committee **confirmed**:

- Other than the matter reported to this meeting the Committee had no knowledge of fraud, actual, suspected or alleged, including those involving management:
- The Committee have a supervisory role in respect of fraud, the power to investigate lies with officers; and
- The committee receive regular reports from those officers responsible for investigations allegations of fraud and undertaking proactive audits to identify fraud and the opportunities for fraud.
- The committee receives regular training to ensure it is fully equipped to understand all issues relating to its role as an Audit Committee.

The Committee **noted** the report and recognised that a separate report would be submitted to the Pensions Committee in respect of the audit of the Pension Fund.

37 **2010/2011 AUDIT REPORT OF GRANT CLAIMS AND RETURNS.**

The Committee were advised that the External Auditors PricewaterhouseCoopers (PWC) had issued their Grants Certification Report (2010/11). Of the ten claims and returns which required certification nine needed no qualification. The tenth claim in respect of Housing and

Council Tax Benefit required an amendment of £942 against a claim of £96.7m.

When PWC had drawn up their Action Plan for 2010/11 they had identified five recommendations for the Council to address during the year. All five recommendations had been implemented. The Action Plan for 2011/12 contained two issues identified during the 2010/11 audit process for addressing in 2011/12. These were a recommendation that the Council continue its programme of training officers regularly in respect of the Housing and council tax benefits subsidy, and that the Council review the specific issues regarding the classification by type of council dwellings.

Officers informed the Committee that the issues raised during the audit of the Housing and council tax benefits subsidy claim would continue to be incorporated in the Benefit Officer training programme. With regard to the classification by type this would no longer be needed after 1 April 2012. However, it would be good practice in the future to maintain the classification. HiH would continue to sample check the stock analysis as and when properties were surveyed for decent homes work. It was not deemed value for money to undertake a whole stock check.

The Committee were advised that although confirmation was still awaited it appeared that just 9 grants will require Audit Commission certification in 2011/12.

The Committee **noted** the report.

38 **ANNUAL REVIEW OF RISK MANAGEMENT ARRANGEMENTS**

Officers informed the Committee that an annual review of Risk Management Arrangements is usually reported to the Audit Committee, along with the revised Strategy and a copy of the Corporate Risk Register (CRR). However, this year a Corporate Leadership Team (CLT) working group had been established to review the Risk Management Arrangements. Accordingly the Committee was provided with an update on progress to date and the next planned steps.

It was acknowledged that the Council had robust Risk Management arrangements within services; however, it was the communication link between the Service and Corporate level where more efficiency through stronger links could be exploited. This was particularly important going forward as resources available to the organisation were reduced.

The key conclusions of the CLT group were:

- CLT should own the CRR and have a role in identifying emerging risk areas;
- Each Corporate Risk should have a CMT and CLT lead identified;
- Current format for Risk Registers at Corporate and Service level need to change;

- Organisation may benefit from an 'Issues Log' to sit along side the CRR;
- Centrally held templates and guidance would be important;
- Training may be required for some third tier officers;
- Services will be expected to consider Corporate Risks and where applicable included them in their local risk plans. The mitigation should not duplicate those at corporate level but they should identify service-specific impacts that need to be managed locally;
- The preferred framework for communication of risks is through one to ones; management team meetings and directorate team meetings as these are already diarised and would not require additional meetings to be set up;
- The organisation should better utilise the resources available to it such as advice from Insurers etc; and
- The organisation needs to be less risk averse and increase our appetite and tolerance for risk.

The CMT would be considering a full report in March, following which a further report would be submitted to this committee for agreement.

The Committee **noted** progress so far.

39 **INTERNAL AUDIT CHARTER AND TERMS OF REFERENCE**

The Committee were advised that the requirement for a local authority to have an internal audit function was implied by s151 of the Local Government Act 1972, which required that authorities 'make arrangements for the proper administration of their financial affairs.' Additionally Regulation 6 of The Accounts and Audit Regulations 2011 made provision for relevant bodies to maintain an adequate and effective internal audit of their accounting records and systems of internal control.

The Council have adopted the CIPFA Code of practice for Internal Audit in Local Government in the UK 2006 and its definition of Internal Audit. Officers had drawn up a Terms of Reference and Internal Audit Charter setting out the role and responsibilities of Internal Audit. Details of the proposed changes to update the document were considered by the Committee.

The Committee **APPROVED** the updated Internal Audit Charter and Terms of Reference as attached as Appendix 'B' to the report.

40 **INTERNAL AUDIT DRAFT STRATEGY AND PLAN FOR 2012/13.**

Each year the Committee consider its Strategy and Plan for the forthcoming year. The Strategy outlined the means by which Internal Audit would achieve its objectives. The individual audits shown in the plan and the assurance gained by completing them would be fed into the Head of Internal Audit Opinion, which was a key assurance for the Annual Governance Statement.

Officers informed the Committee that although the draft Action Plan was available there was a need to consult with management before it could be finalised. A large contingency had been maintained as it was envisaged that the implementation of a new approach to risk management would identify a number of additional areas where management would require assurance. Officers intended to represent the Plan to the next meeting of the Committee.

The report was **noted**.

41 **INTERNAL AUDIT PROGRESS REPORT**

Officers advised the committee that in quarter 3 they had completed 8 systems audits. Of these 6 had received substantial audits and two limited audits. Details of work in progress were provided.

The Committee asked that officers attend the next meeting of the Committee to respond to the limited assurance given in respect of the Jacobs Contract follow up. Similarly the Committee asked that officers attend the next meeting to provide their response to the 24 recommendations raised in respect of Oracle Financials.

In response to questions from the Committee officers were able to give an assurance that the issues raised in respect of Registrars had been actioned and that a further annual audit would take place as programmed. No additional action was necessary at this time.

The Committee noted that no action was required in respect of the three completed school audits, all of which had received a substantial opinion.

Subject to the above the report was **noted**.

42 **FRAUD PROGRESS REPORT**

The Committee were provided with details of the work of the Benefit Investigation Section and Internal Audit Fraud Team from 3 October to 30 December 2011. Officers advised the Committee that grant funding had been provided to the Council to deal with tenancy fraud, and this money had been used to strengthen the structure and resource available within the investigations team. For six months two housing benefit investigators would work alongside the two existing investigators, seconded into the temporary posts set up to investigate tenancy fraud referrals. Pro-active work was expected to generate 1000 additional referrals for the benefits team. During this period it was proposed to restructure the team to ensure the establishment was flexible enough to meet the needs of the organisation in the future.

Officers provided the Committee with details of the number of cases dealt with in the quarter. Examples of successful cases were provided for the Committee's information.

Officers additionally provided the Committee with details of one case which had led to the Council changing its procedures to ensure the fraud could not be repeated. The Group Director, Finance and Commerce agreed to regularly update the Committee.

The Committee **noted** the report.

43 **ANNUAL REVIEW OF AUDIT COMMITTEE EFFECTIVENESS**

The Committee were advised that last year a full review of the Committee's effectiveness had been undertaken compared to best practice guidance issued by the Chartered Institute of Public Finance & Accountancy was completed and an improvement plan drawn up. Officers were now updating the committee on progress. A self assessment check had been undertaken by the Chairman which highlighted four areas for improvement. Of the four areas two were now fully compliant and two partially compliant.

The Audit Committee does not have separate Terms of Reference, these were included in the Council's constitution, and the Chairman was satisfied that these arrangements were satisfactory. Meeting dates were set annually by the full Council and these were publicised on the Council's website.

The report was **noted**.

44 **DEMISE OF AUDIT COMMISSION**

Officers updated the Committee on the proposals following the Under the current proposals External Auditors would need to be appointed by Full Council on the advice of an Independent Panel with an independent Chairman, and a majority of independent members. What was meant by Independent Members was still unclear and officers would update members when clear advice was available.

The Committee **noted** the report.

45 **CLOSURE OF ACCOUNTS TIMETABLE 2011/12**

Officers advised the Committee that the closure timetable had been issued and was being monitored by Corporate Finance staff.

The following matters had been addressed since the initial report.

- a) The procedure manual had been issued to all finance staff.

- b) ISS staff we investigating the potential to produce the accrued leave report from Oracle (which would avoid the sampling approach adopted last year).
- c) Corporate Finance staff had met with valuers to review the policy in connection with the componentisation of assets. Further work was being undertaken before the related accounting policies were updated
- d) Progress was being made in connection with the collection of asset valuation data for the recognition of heritage assets and transport infrastructure assets. The heritage asset valuations were required for disclosure in 2011/12.
- e) The draft format of accounts had now been created for 2011/12 based upon the latest guidance.
- f) Systems reconciliations were being monitored by ISS staff on a monthly basis. These would be reviewed during regular ISS/Corporate joint meetings in the lead up to closure.
- g) The external auditors, PwC would commence the interim audit on 26th March.

The Committee **noted** the report.

46 TREASURY UPDATE

The Committee resolved to exclude 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.

As discussed at the last meeting a briefer and more relevant report had been submitted for the Committees consideration. A full list of the Councils investment as at 31 December 2012 had been provided.

The Committee **noted** the treasury management activities detailed in the report.