

## AUDIT AND GOVERNANCE COMMITTEE

11<sup>th</sup> December 2007 at 6.00 p.m.

PRESENT: Councillor Farooq (Chair); Councillors, R.J. Davis, Ireland, Pantling and Patterson.

### 30 APOLOGIES FOR ABSENCE (REF: 1)

Apologies for absence from the meeting were submitted on behalf of Councillors R. Davies and Malik.

### 31 MINUTES (REF: 2.1)

Further to Minute 29/07, a Member asked about the expected report back to this meeting on possible measures to reduce internet and e-mail mis-use.

The Head of Audit advised that the matter was part of the waste investigation follow up report, being submitted to the next meeting of the Committee.

The Head of Audit further advised that further to Minute 25/07 which required the Head of School Improvement to attend this meeting to explain the lack of action on implementing the outstanding issues on the audit report action plan, all issues had now been satisfactorily resolved and attendance was no longer required.

**Resolved:** (i) That the Minutes of the meeting of the Committee held on 26<sup>th</sup> September 2007 be approved as a correct record and signed by the Chair.

(ii) That it be noted that a report back would be made to the next meeting of the Committee on the follow-up audit to the waste investigation report which would include reference to possible measures to reduce internet and e-mail mis-use.

### 32 USE OF RESOURCES ASSESSMENT (REF: 7)

The Committee received a report by the Head of Corporate Finance, which presented the report of the Council's External Auditors, Grant Thornton on the use of resources assessment for Luton Borough Council for 2007.

The Council's External Auditor, Mr. Richard Tremeer addressed the Committee and identified the key issues arising from the report.

The Council's External Auditor was pleased to report that the Council had demonstrated significant progress and had moved from an overall score of 2 in the top level key lines of enquiry and the majority of sub themes, to a score of 3 for the majority of those areas, resulting in an overall score of 3 for

2006/07. This indicated a level of performance of 'good' compared to 'adequate'. The direction of travel for the Authority was an upward curve. There were still areas for improvement however, in relation to the assurance framework and value for money and these needed to be developed.

The Committee was advised that the assurance framework needed to be sufficiently linked to risks and controls. The framework needed to be embedded within the organisation for demonstrable improvement to be achieved. The External Auditors would be working with the Council, offering best practice advice and assistance in moving forward.

There had been improvements in the Council's approach to Value for Money. However where service costs were higher than the average the Council needed to demonstrate that it was providing high quality services or that there were sufficient reasons to justify high spending levels. Where high spend was not justified, action plans needed to be developed to demonstrate that officers were aware of the value for money implications.

Further improvements would be achieved by further embedding the process for each of the Key Lines of Enquiry criteria, in particular in demonstrating that the arrangements in place would drive improvements in processes and outcomes.

The Committee was advised that the criteria and key lines of enquiry for 2008 had changed compared with 2007. This was to address the changing priorities facing Councils such as the need to develop partnership working and the leadership role of the Council in this area. It would be necessary for the Council to respond to those changes during 2008.

The Chair invited questions from the Committee.

A Member referred to the changing priorities for 2008 and advised that the development of partnership working and Council leadership in this respect was a priority for the current Administration. Action had been taken to re-align the Local Strategic Partnership's themed groups into four thematic partnerships to reflect the Government's requirements for Local Area Agreements and new resources were being identified to take this forward. It was anticipated that this would demonstrate that the Council was taking action to address this matter. He added that risk management was also an area which would be followed very carefully to ensure it was managed effectively. In relation to Value for Money, in looking at high cost areas it was difficult to compare like for like within the family group of Authorities, as Luton's demographic was specific, very expensive to support in responding to individual need (particularly around language skills) and not replicated anywhere else.

The Council's External Auditor acknowledged that there might be reasons for high cost spend. However the Council needed proper systems to demonstrate that this had been addressed, assessed and justified, or to show action being taken where areas of high spend could not be justified.

A Member asked what the benefits would be for the Council to invest resources in striving to achieve a level 4 on the Use of Resources Assessment, or if this would be better spent on the priorities and services important to the people of Luton.

The Council's External Auditor replied that a process of continuous improvement would take Councils operating at a solid 3 level on to a level 4. Good operational practices would achieve that level in any event. What was required from a Local Authority was demonstrable evidence of a clear strategic direction with good resources behind to deliver it and a robust mechanism for performance management to support it.

A Member referred to the improvements made by the previous administration in relation to educational achievement. The foundations laid would take several years to demonstrate improvement and 'quick win' solutions were not achievable in this area. He asked if this was an area where value for money could really be tested against other Authorities with a similar composition.

The Council's External Auditor remarked that the quality of a child's education was important and there were choices to be made about investment in this area. It was possible to compare with other similar Authorities to form a judgement, but the Council needed to demonstrate how it measured, validated and justified the choices it made in investing in high cost areas. There was room for improvement for the Council in demonstrating how it achieved this.

The Member commented that he felt that a County Council might have more resources to invest than a small authority which may have an impact. He mentioned also that in Luton school improvement was linked directly to schools and not bought in by the School. That could be an area of cost being borne by the Council.

Whilst this was a judgement for the Council to make and outside the External Audit process, this was something for the External Auditors to think about.

A Member expressed broad agreement with the comments made previously about making a judgement between striving for level 4 and allocating additional corporate resources to achieve this, or directing resources towards meeting the needs of Luton's residents. He asked if the indicative scores in the Use of Resources report had been confirmed as a 3.

The Council's External Auditor replied that the Chief Executive had been advised that day by the Audit Commission that that the score had been confirmed at 3.

A Member raised some points of detail in the Use of Resources report and asked if there would be a follow up report to identify the improvements

needed to achieve a level 4. He also asked when the new criteria to be applied to 2008 would be known.

The Council's External Auditor advised that the new criteria had been available for some time and he would be working with officers to look at systems to support this during the first quarter of 2008. It was for Council officers to make the new requirements known to the organisation and to follow this through.

A Member asked if this had been made known to the Committee and the Council's External Auditor directed Members to the report now before the Committee and the two areas requiring further work to achieve a strong level 3.

A Member noted that in addition to new criteria being introduced, the criteria to maintain level 3 had changed as well. It would be helpful for that information to be provided to Members.

It was agreed that a information on the new Key Lines of Inquiry (KLOE) published by the Audit Commission would be circulated to Members of the Committee.

A Member referred to the new requirement (page 7/26 of the report refers) for the Council to have implemented arrangements for partnership working and a clear understanding of the total resources at the disposal of it's significant partnerships. He asked if this related to the total resources of the Council or it's partners (or both) and expressed concern that external partners were beyond the Council's control both financially and in relation to performance.

The Council's External Auditor advised that partner organisations were included in this expectation. The Council had the opportunity to engage with and influence partners to effect change. This requirement would assess the Council's relationship with external partners and the influence it was able to exert.

A Member asked how this could be measured. He was concerned that the Council might be judged on the performance of external partners over which the Council had no control.

The Council's External Auditor agreed that this was a difficult issue. However effective partnership working was an area of focus for all inspectorates.

**Resolved:** (i) That the External Auditor's Use of resources Assessment attached at Appendix A to the Head of Corporate Finance's report (Ref: 7) be noted and the action plan set out in the Appendix be approved.

(ii) That the Head of Corporate Finance provide Members of the Committee with information the new Key Lines of Inquiry (KLOE) on the use of resources published by the Audit Commission.

### **33 INTERNAL AUDIT PLAN UPDATE 2007/2008 (REF: 8)**

The Head of Audit updated the Committee on the work of the internal audit service over the period April to November 2007 and highlighted projects carried out since the matter was last reported.

In relation to the Children's Centres follow up report, the Head of Audit mentioned (as referred to at Minute 31/07 above) that it was no longer necessary for the Head of School Improvement to attend this meeting to explain the lack of action on implementing the outstanding issues on the audit report action plan, as all issues had now been satisfactorily resolved.

In relation to school audits carried out on behalf of Bedfordshire County Council, whilst not all reports had been finalised as yet, all the audit work was completed. This was a good example of joint working.

The Head of Audit referred to the percentage of planned audit days completed and explained that this was ahead of target in anticipation of a planned maternity leave absence in the New Year. A secondee had been made available by Deloitte, the Council's private sector partner, to assist the Audit Team.

A Member asked if the sickness absence figures could be advised in number of days absent per employee rather than as a percentage of days absent.

The Head of Audit advised that the percentage figure reported equated to about 5 or 6 days sickness absence per individual.

A Member asked what would happen if all the audit days were used up and more work was required to be carried out.

The Head of Audit advised that resources could be freed up by deferring risk management workshops into the next quarter, or by bringing in resources from the Council's private sector partner.

In answer to a question about the reporting of special investigations, the Head of Audit advised that outcomes were reported back to this Committee.

A Member expressed his thanks for the new report format showing progress on reporting (final, draft and work completed but no report required) which he found very helpful. He asked why there had been more audit days spent than planned for in the audits on housing allocations – 27 days spent, 10 planned and FMSIS general – 17.3 days spent, 2 planned.

The Head of Audit explained that this had been the first time housing allocations had been audited in depth, which had contributed to the timing. He offered to bring details to the next meeting to explain the reasons for this, but no significant problems had been noted as part of the process.

Members indicated that an explanatory note would be sufficient to update them on this matter.

In relation to FMSIS general this related to training by provided by and to the Audit team. The balance of 126 planned audit days for Schools Audit work would decrease as more schools received this training.

A Member asked why more days were used for Stockwood Park Golf Centre and High Town Community Sports and Arts Centre and whether Active Luton would be charged for this work.

The Head of Audit explained that this work formed part of the re-charge to Active Luton. When the transfer took place it had been felt that 22 planned audit days would be sufficient (based on previous plans) and that figure formed part of the calculation. However this had proven to be insufficient for the Head of Audit to give an assurance and the number of days had been increased to 45 as a result. The audit report was in its final stages.

In reply to a question about who was paying for the extra days, the Chief Accountant advised that this would be covered by the overall service re-charge arrangements under the service level agreement with Active Luton.

A Member asked what the issue had been with block bookings and why this had taken so long.

The Head of Audit advised that it had been necessary to check the systems in all Centres and a thorough check had been required.

**Resolved:** (i) That the internal audit plan update report for 2007/08 covering the period April to November 2007, be received.

(ii) That the Head of Audit provide Members with details of the activities within the housing allocations audit which had led to the number planned audit days being exceeded.

#### **34 LOCAL CODE OF CORPORATE GOVERNANCE (REF: 9)**

The Head of Audit submitted for the Committee's approval a revised Local Code of Corporate Governance, which set out the system by which the Council would direct and control it's functions and relate to it's communities.

This had been updated to account for changes in regulations and had been prepared having regard to the CIPFA/SOLACE framework.

The Committee was advised that it would now be necessary to submit an Annual Governance Statement (AGS) to the Committee rather than a Statement of Internal Control and there was also a requirement to annually review the effectiveness of the system of internal audit.

A review of the Code would be carried out by Internal Auditors and the method of doing so would be reported back to the Committee in March 2008. To fully implement the revised Code an action plan would be developed and issued.

For level 2 it was necessary to produce a statement which provided:

- An annual review on the effectiveness of Government framework.
- Sources of assurance to support AGS had been identified and reviewed by officers/members
- Action plans in place to address any significant governance issues reported in AGS
- Identification of significant partnerships and that appropriate governance arrangements were in place for them.

To maintain the current level 3 the Council needed to have an assurance framework which mapped strategic objectives to risks, controls and assurances and provided Members with information to support the AGS.

The Head of Audit advised that the implementation of the revised Code now submitted would incorporate the requirements to meet/maintain level 3.

A Member sought clarification of the changes required.

The Head of Audit replied that there were two main changes, (a) the need to produce an 'Annual Governance Assurance Statement' which replaced the requirement for a 'Statement of Internal Control' and (b) a requirement to annually review the effectiveness of the system of internal audit.

A Member asked if there would be any training to officers on the new requirements.

The Head of Audit advised that an action plan would be prepared which would address any needs. A briefing note was the most likely form of communication for implementation, but training could be provided if this was felt to be necessary.

A Member suggested that the requirements of the Code should be embedded within the organisation in order for it to be successfully applied.

The Committee was advised that there would be an officer level meeting in January to discuss the action plan and a report back to this Committee on progress in March 2008.

**Resolved:** That the revised Local Code of Corporate Governance attached at Appendix A to the Head of Audit's report (Ref: 9) be approved.

### **35 INTERIM AUDIT REPORT (REF: 10)**

The Head of Audit submitted a report which updated the Committee on the work of the Audit service for the period April to September 2007, which was a 6 month update of the annual audit report.

The Audit team were aware of no major issues.

One matter drawn to the Committee's attention was the work carried out by the Audit Team on 2006/07 Teachers Pension Agency Claim for schools who did not use the Council's own payroll service.

This avoided additional costs for schools (as an external auditor would otherwise have to carry out this work) but the Audit team were able to make a charge and this provided a small income to the audit service. However, the charge could be avoided by schools if they used the Council's payroll service.

Councillor Patterson asked a question about the waste disposal investigation (which had been reported to the last meeting of the Committee in private) and agreed to receive an update from officers after the meeting.

A Member asked if there was an inspection of staff appraisals carried out and whether any audit was carried out on this.

The Head of Audit advised that he had not been asked to audit staff appraisals. However, the Committee was advised that the new Finance and Monitoring report included performance data of appraisals carried out.

In relation to the car disposal investigation mentioned in the report a Member asked whether a company found to have defrauded the Council, would be used again.

The Head of Audit confirmed that under the Anti Fraud and Corruption Policy the Council would not use such a company again.

**Resolved:** That the Interim Internal Audit report for the period April to September 2007 appended to the Head of Audit's report (Ref: 10), be received.

**(Note: The meeting ended at 7.00 pm)**