AUDIT AND GOVERNANCE COMMITTEE

24th September 2008 at 6.00 p.m.

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

19 APOLOGY FOR ABSENCE (REF: 2)

An Apology for absence from the meeting was received on behalf of Councillor Raquib.

20 MINUTES (REFS: 3.1)

Resolved: That the minutes of the meeting of the Committee held on 25th June 2008 be taken as read, approved as a correct record and signed by the Chair.

21 WHISTLEBLOWING POLICY – ANNUAL REPORT (REF: 7)

The Head of Legal Services submitted details of whistleblowing activities which had taken place over the past year.

Since the introduction of the new policy on 19th February 2007, 15 complaints had been received, which were summarised in anonymous form at Appendix B to the report.

In response to a question, the Head of Legal Services advised that where the table indicated that some complaints had not been investigated, this was because from the information submitted it was evident that there was no case to answer. In reply to another question about whether the outcomes were generally justified or not, the Head of Legal Services commented that the outcomes were often complex. Only one case had been wholly substantiated, but generally complaints were not upheld to the extent alleged. Further thought would be given for next year to providing more detail in the report on the outcomes of cases.

A Member asked if the outcome of the whistleblowing policy suggested that there was generally a good level of integrity amongst staff in the authority and where an investigation was undertaken the level of dishonesty was minimal.

The Head of Legal Services agreed that this was a fair summary.

A Member asked if there was positive justification in a case of fraud, would publicity be used as a deterrent.

The Head of Legal Services advised that it could be highlighted that this had come about through the whistleblowing policy, but to date that had not happened.

Resolved: (i) That the report be noted.

(ii) That the Head of Legal Services give consideration to including outcomes of whistleblowing cases in his next annual report to the Committee.

22 REVIEW OF RISK 2007/08 AND IMPLEMENTATION OF STATEMENT OF GOVERNANCE ACTION PLAN 2008/09 (REF: 8)

The Head of Corporate Finance informed the Committee of the Council's progress in managing risk in 2007/08 and, in accordance with the Committee's Terms of Reference, the implementation of issues arising from the Statement of Governance for 2007/08.

The Committee at their meeting held on 25th June 2008 (Minute 17/08), had requested an update on the significant governance and control issues.

The Head of Corporate Finance reported a summary of the risk management activities undertaken over the past 12 months which included the delivery of training, a review of the risk management strategy, actions to ensure that key project risks and risk mitigation was considered as part of project reviews on an ongoing basis, and a 'lessons learned' assessment of key risks and their mitigation, as part of the standard post-implementation review of projects.

Further to minute 17/08, details of the implementation of the Statement of Governance Action plan were set out in the report. The Committee was advised of a major transformation currently taking place in the revenues service. Risks for the capital programme had been addressed by the Corporate Leadership Management Team, who had agreed the need for increased independent project management, contingencies within major capital budgets and an addition to the risk reserve.

Set out at appendix A was the identification of significant risks in the format submitted to the Executive. All projects with a residual score of 5 and above were identified in that report. In addition the risks associated with the current economic decline and the investment of the Council's funds in various Banks was to be reported to the Executive on 6th October 2008.

With reference to Appendix A, a Member suggested that item 3 – staff performance – overload/stress, should include the consequences of staff shortages; existing staff were stressed and those brought in to cover might result in a lack of continuity and affect performance and outcomes.

In relation to item 6 – failure to keep to approved budgets, it was suggested that contingency should be used not to address a poorly managed project, but to address real and unforeseen circumstances.

The Head of Corporate Finance agreed to take those points into account in future reports to the Executive.

A Member commented that Item 3 had a residual score of 8 which, after all mitigating controls, was still very high. The Head of Corporate Finance advised that this should be reviewed in light of the outcomes of the employee survey.

Resolved: That the report be noted and no further action be taken.

23 EXTERNAL AUDITOR'S ANNUAL REPORT TO THOSE CHARGED WITH GOVERNANCE (REF: 9)

The Committee was invited to consider the annual report by Grant Thornton on their audit of the Council's accounts, their views on the Council's arrangements to secure value for money, the Auditor's and Council's responsibilities and matters arising from the audit.

The Head of Corporate Finance advised that an additional recommendation would be required as the audit by Grant Thornton required a number of changes to the accounts. Those changes were presented in a revised version of the accounts now circulated to Members. The changes had no impact on the bottom line in terms of the effect on the tax payer, but did impact upon how the Council's balance sheet appeared.

The Head of Corporate Finance stated that there were lessons learned about how the accounts had been prepared this year. As in previous years the Accountancy Division had attempted to minimise costs to the Council taxpayer by purchasing only the Statement of Recommended Practice on Local Authority Accounting (SoRP) and not the separately issued guidance notes at £600. This had subsequently been found to have had an impact on the preparation of the accounts in the required format. In future, both would be required. The accounts had been prepared in the same format as was agreed with the auditor last year, but new requirements had been introduced in the guidance notes, which had not been reflected in this year's preparation. Training would be provided to accountants to respond to changes in recommended practice and those brought about by the introduction of International Financial Reporting Standards (IFRS) from 2010/11.

Richard Tremeer of Grant Thornton advised that over the past two years, considerable changes had taken place both in the recommended practices and the completion of the accounts. It was confirmed that whilst this had not affected the bottom line, the compilation of the accounts needed to be changed to reflect the reporting standard and guidelines now required, which aimed to bring the public sector more in line with commercial accounting. There were a number of areas where Luton's initial accounts did not fully comply with the Statement of Recommended Practice on Local Authority Accounting (SoRP). However with the adjustments as now submitted, the External Auditors were able to agree the accounts.

The key audit findings and the changes required to the accounts were identified as follows:

- More disclosures were needed in relation to financial instruments; these had been included and the accounts were now compliant in this respect.
- The external auditors considered that Luton Airport needed to be classified as a financial instrument. This investment had been measured as cost in the original accounts. The external auditors initial view was that the airport should be classified as available for sale. As there was no intention to sell, the Head of Corporate Finance did not regard this classification as appropriate. Following further consideration of the classifications available falling outside the standard asset categories, it had been agreed to note the airport as an 'unquoted equity investment at cost'.
- Deferred liability and long term debtors. There was an unresolved issue on the definition of transferred and acquired assets from Bedfordshire County Council following re-organisation in 1974 and 1997. No definitive guidance was currently available from CIPFA or the Audit Commission so this advice would be sought to guide the accounts for future years.
- Statement of total recognised gains or losses (STRGL). The STRGL has been revised to reflect the required format. However the revisions contained a total of £4.1 m 'other' gains or losses. As it was unadvisable to show such a significant amount as 'other', this sum had been re-evaluated and it was recommended that this should be shown under liabilities (£2.789 m) and income and expenditure (£2.261m).

However, the Head of Corporate Finance had not agreed to process the changes on the STRGL this year in view of the time available and the Committee's agreement to the non-processing of those adjustments was required.

A Member asked for an explanation of the term 'impairment of debtors loans and receivables (bad debts)' and it was advised that impairment meant that it was unlikely that all debt would be received on time and in full. It was necessary to look at the value of debt and estimate what might actually be recovered.

The Committee looked at the action plan recommendations set out at Appendix C.

Reference was made to the 42% increases in rent arrears with provisions of only 27% being made. Most of this was current debt. A Member questioned if the reality of rent recovery was higher than the 27% estimated.

A Member referred to capitalisation and asked to what extent it was likely that capitalising small revenue amounts caused a problem and to what extent was this encouraged within the organisation. Was there any suggestion that this type of capitalisation was going on more widely?

Richard Tremeer advised that disclosure in accounting was important in the final accounts. There was no issue with the overall analysis but with the description used. A random sample had found only one exception, which was not material.

The Head of Corporate Finance advised that the general instruction was to make a distinction between revenue and capital. However with hundreds of cost centre managers across the authority misunderstandings and mis-codings could occasionally occur.

The Head of Corporate Finance asked the Committee if they wish to be advised of the changes page by page, or would accept that the detail of the adjustments referred to had been incorporated into the revised accounts tabled at the meeting and to approve those revisions.

The Committee confirmed that they accepted that the detail had been incorporated without going through the accounts page by page.

Resolved: (i) That the management action plan set out at Appendix C to the External Auditor’s annual report attached to the Head of Corporate Finance’s report (Ref: 9) be agreed.

(ii) That the changes to the accounts set out at Appendix D of the External Auditor’s annual report attached to the Head of Corporate Finance’s report (Ref: 9) which should be made in the 2007/08 accounts, as detailed in the revised copy of the accounts tabled at the meeting, be agreed.

(iii) That the Committee confirm that the changes set out at Appendix E to the External Auditor’s annual report attached to the Head of Corporate Finance’s report (Ref: 9) should not be processed on the grounds that it was not practically possible to make the changes required in the timescales necessary to meet the statutory date for the publication of the accounts.

(iv) That the Committee note that the changes in approach required as referred to at resolution (iii) above, would be made for the 2008/09 accounts.

(v) That the development of in house training for accountancy staff in issues arising from the changes in Statements of Recommended Practice (SORP) be supported.

(vi) That it be noted that the implications and resource requirements relating to the introduction of International Financial Reporting Standards (RFRS) will need to be assessed over the next 18 months.

24 ANNUAL BENEFITS FRAUD REPORT (REF: 10)

The Head of audit presented the annual benefits fraud report for 2007/08, which summarised the fraud activity over that period, including joint working with the Department for Work and Pensions to detect fraudsters.

Members commented that publicity of fraud activity appeared to act as a deterrent but asked if there was any evidence that publicity resulted in a reduction in fraud and if the deterrent effect of publicity could be measured.

The Head of Audit replied that it was very difficult to measure the deterrent effect and this was exacerbated by fraud being detected in different areas every year.

Resolved: That the Revenue’s Investigation Team Annual report for the financial year 2007/08 as set out at Appendix A to the Investigations Manager’s report (Ref: 10) be received.

25 INTERNAL AUDIT PLAN UPDATE (REF: 11)

The Head of Audit updated the Committee on the work of the Internal Audit Service and advised on the main areas of audit work, which had been carried out since the last update.

The Committee was advised that the performance indicators did not reflect as good a performance as in previous periods. This was attributable to several factors including a lack of senior staff. A recent recruitment campaign had not been wholly successful with only one of 3 posts being recruited to. Two staff were on maternity leave and one on long term sick leave. The Council’s private sector partner, Deloitte, had provided some resources to cover these vacancies but had been unable to provide as much resource as required.

Whilst all essential audits were being completed and to a high standard, it would be necessary, to ensure the audit plan was met, to reduce the number of planned audit days by 100 in 2008/09. The decrease would ensure audits were efficient and took a higher risk approach. The areas to be reduced were set out at Appendix 4 to the report, which included reducing schools audits by 45 days.

Particular attention was drawn to rent arrears for which only a limited assurance could be given. A major weakness was in the reconciliation of the number and level of arrears, related properties and income generated from arrears. Several of the controls recommended to manage this process had been delayed because of the delay in implementation of a new computer system. It was anticipated that with the advent of the new computer system, expected to be in place by the end of 2008/09 and a series of robust controls, improvements in these areas would be seen.

In relation to the Information Management (IM) review, a Member asked whether savings arising from improved IM systems was looked at and whether the advantages of an IM system were quantified.

The Head of Audit advised that this was not looked at. The review looked at the structure of IM and how that could be changed to provide savings and a more efficient service.

A Member suggested that the productivity target of 5% was a poor target in view of the impact on available productive work time. The Head of Audit replied that the target would normally be 70% but account had to be taken of the two staff due on maternity leave which in a small section had a significant impact.

A Member asked if it was possible that people were paying rent arrears but being chased because the system did not show them as having paid?

The Head of Audit replied that he would need to check this and would e-mail Members with the response.

A Member asked if the recommendations of the audit team on reviews which were to be reported to CLMT would get reported anywhere else prior to submission to the Executive? That is, would the recommendations reach the public domain if CLMT did not want to pursue them.

The Head of Audit replied that ordinarily the outcomes would be reported to CLMT and only referred elsewhere if a Committee decision was required.

The Member asked what access Councillors would have to recommendations arising from value for money reviews, which resulted in staffing changes.

The Head of Audit replied that the Committee could call for a report on outcomes, but this would not be brought to the Committee as a matter of course as the review was not an audit report, but a review carried out by a team of people outside the audit team.

The Head of Legal Services confirmed that it was not usual practice for the outcomes of such reviews to be reported to Council Members.

A Member asked if the outcomes of a review would need CLMT's sanction or would they report to the Executive.

The Head of Audit replied that if CLMT agreed the recommendations they would then be carried forward in the appropriate manner.

A Member suggested that there was less transparency in the current process than under the best value regime. He asked how the outcomes of a value for money study would be made known wider than CLMT under the current arrangements.

The Committee was advised that the outcomes of an audit report, conducted by the audit team, which highlighted concerns would be reported to this Committee. The outcomes of a value for money study conducted by a team of officers across the Council would not require reporting in this way. Audit participation in a value for money study did not result in the need to report to this Committee.

A Member commented that whilst the formal work carried out by the audit team should be available to the Committee, the use of the audit team in cross departmental reviews to utilise their expertise and experience was not a matter for the Committee.

Reporting to Committee was currently by exception. It was established practice that audit reviews resulting in high risk, limited assurance or no assurance would be reported to Committee but otherwise not.

A Member asked whether, on a similar exceptional basis, reviews which made recommendations which were not actioned or followed through, could be brought to this Committee.

The Head of Audit was requested to look into the feasibility of that suggestion and report back on the implications to the next meeting.

Resolved: (i) That the internal audit plan update report covering the period April to 24th August 2008 be received.

(ii) That the Executive be recommended to reduce the 2008/09 audit plan by 100 days.

(iii) That Head of Audit report the follow up audit of rent arrears to the March 2009 meeting of this Committee, to include whether or not it had been the case that those who had paid off arrears were being chased for payment because the system was not showing them as paid.

(iv) That the Head of Audit investigate and report back to the next meeting on the feasibility of how Value for Money reports should be reported to Members, particularly those reviews containing recommendations which were not actioned or followed through by CLMT.

26 EXTERNAL AUDIT & INSPECTION PLAN 2008/09 (REF: 12)

The Committee received a report on the External Audit and Inspection Plan 2008/09, which set out the proposed audit and inspection work programme for 2008/09.

Apologies were received from Mr. Nigel Smith of the Audit Commission who was to attend to present this paper, and the Committee received an update from the Council's External Auditor, Richard Tremeer on his behalf.

The Auditors would be required to issue an opinion on two key areas (a) the Council's accounts and (b) the use of resources.

This would be the first year of a new 'use of resources' assessment with changes to the assessment criteria concentrating on managing money, managing business and managing resources. This would form an element of the Comprehensive Area Assessment (CAA) framework for 2009. Once the changes to the regime became clearer in the autumn, further discussions would take place with the Chief Executive and the Head of Corporate Finance, to ensure officers had the information they needed to observe the new requirements.

Another challenge over the next few years was the general adoption of the International Reporting Standards ("IFRS") expected for implementation in 2010/11.

Those challenges and risks facing the Council were set out in the report and the inspection plan to be carried out by the Audit Commission was set out on pages 11 and 12.

A Member referred to the planned audit inspection fee for 2008/09, which at £55,955 appeared to be double this year's fee and asked why that was.

Richard Tremeer replied that this was the fee for the direction of travel and relationship manager.

The Head of Audit mentioned that the previous years fee had been approximately £24,000. He asked if the housing inspection costs amounted to £32,000 and this was confirmed.

A Member referred to the table on page 12 which indicated that a review of landlord services would include tenancy, income and estate management. However as the Council no longer had any housing estates it was unclear what the inspectors would be looking for.

Richard Tremeer advised that they would be looking at the total housing estate, i.e the corporate hub.

A Member referred to the risks set out on page 4 and in particular the airport which, in light of the failure of the third largest travel agency recently, might be at risk of reduced income. This might in turn affect the Council's dividend. Could this be managed in any way?

Richard Tremeer acknowledged the potential impact of the loss of Excel and advised that this risk would be spread as widely as possible.

A Member referred to page 5 which referred to the review process to examine costs alongside services to maximise efficiency. He asked if there was to be co-operation between the External Auditors and the Council.

Richard Tremeer replied that support was available should the Council require it.

Resolved: That the Executive be recommended to approve the External Audit and Inspection Plan for 2008/09 as set out at Appendix A to the Head of Audit's report (Ref: 12).

27 TACKLING HEALTH INEQUALITIES IN LUTON (REF: 13)

The Head of Audit reported on the outcome of a recent audit report undertaken by the External Auditor, which examined and assessed the extent to which public sector organisations in Luton understood their local health inequalities.

A Member referred to a recommendation seeking improvement, but pointed out there were no suggestions in the report as to how this could be achieved. He asked who was responsible for implementing the recommendations.

Richard Tremeer advised that implementation would be assessed by a future follow up.

A Member commented that the recommendations sought to drive improvements in health inequality. He asked if targets drove improvement and how the auditors would comment on this.

Richard Tremeer advised that targets had not been looked at specifically. There was a difficulty with joint working in getting agreed targets and achieving individual accountability.

Resolved: That the report be noted.

(Note: The meeting ended at 8.20 pm)