

AUDIT AND GOVERNANCE COMMITTEE

14th March 2012 at 6.00 p.m.

PRESENT: Councillor Farooq (Chair); Councillors R.J. Davis, Gale, Dolling, Hussain and Pantling.

1 APOLOGY FOR ABSENCE (REF: 1)

An apology for absence from the meeting was received on behalf of Councillor T. Khan.

2 MINUTES (REF: 2.1)

Resolved: That the Minutes of the meeting of the Committee held on 13th December 2011 be taken as read, approved as a correct record and signed by the Chair.

3 FOLLOW UP ON AUDIT RECOMMENDATIONS (REF: 6)

The Audit Manager presented a Report in regards to recommendations and points raised in respect of lease and rentals, school meals at schools and school meal reconciliation, the Butterfield Management Contract and Active Luton Cash Collection at the previous meeting of the Audit and Governance Committee.

Leases/Rentals

The Audit Review of Schools that had entered into lease agreements had highlighted a number of control weaknesses which needed to be addressed and twelve recommendations had been made. It was Audits opinion that in respect of the areas covered in the report, Limited Assurance was given on the current standards of internal control.

The Audit Manager advised that a follow up review had been undertaken and that immediate action had been taken on eleven recommendations (including the High Priority recommendation) and had been fully implemented. She added that one medium priority recommendation in relation to updating Standing Orders for Schools was still outstanding.

School Meals Reconciliation

Members were informed that since September 2011 Corporate Accountancy and Catering Services had been communicating on a monthly basis to resolve un-reconciled items. She added that the General Catering Manager anticipated that the close co-operation would facilitate prompt

investigation of differences between income reported by the schools and bankings, and that this would allow the September to December 2011 reconciliation to be completed within the first half of the following term.

School Meals in Schools

Recommendations had been made to simplify the reconciliations of actual bankings to records of income received to give assurance that all meals provided had been paid for, or a debt had been accurately recorded to enable the cashier to perform and Kitchen Manager to verify more easily.

She went on to say that thirteen recommendations had been made, of which three were a High Priority, therefore Audit could only provide Limited Assurance on the current standards of internal control.

Butterfield Management Contract

Previous recommendations in regards to the receipt of profit share from Basepoint had not been implemented due to the low level of income that had been received. However, as at March 2012, 80 to 90% of the Butterfield Innovation Centre was in occupancy resulting in regular income. She added that the service manager intended to arrange for interim payments based on projected profits to be started later in 2012. It had been agreed that Basepoint would notify the Council of the amount due for 2011/12 after their accounts had been externally audited in May, and that an invoice would be raised immediately.

Active Luton Cash Collection

Members were informed that over the last five months Active Luton had introduced new Legend Software across all centres on a rolling programme, and that all staff had been trained in its use. The software would replace the FLEX System which controlled income, bookings, stock control and sales would not be supported after March 2012. She added that this was a huge undertaking at a time of great change and uncertainty due to staff restructure and centre changes.

Putteridge High School

The Audit Manager informed the Committee that the School Budget Plan was currently set to recover deficit agreed by the Authority. She added that in year, the Authority had agreed to three separate revisions of the recovery plan to ensure that the school could effectively meet set targets. To facilitate this, the Operational Headteacher's salary was now being paid by Barnfield Federation of Schools. Also, Budget monitoring was being undertaken on a regular basis by the Business Manager with frequent reporting to the Operational Headteacher on the achievement of targets set, all of which were on track.

Therefore, it was Audits opinion that in respect of the areas covered within the report, Adequate Assurance on the current standards of internal control was given.

Resolved: That the Report (Ref: 6) be Noted.

4 SCHOOL MEALS: IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (REF: 7)

The General Catering Manager updated the Committee on the status of action plans agreed with Internal Audit in response to School Meals and School Meals Income Reconciliation.

Members were reminded that a number of Audit reports had been issued with Limited Assurance to Catering Services in the last two years. In October 2011, a report with Limited Assurance, had been issued on procedures for safeguarding and recording income and stock in school kitchens, where meals were provided. Since then, revised procedures, instructions and forms had been issued to all Kitchen Managers. He added that all Area Managers would undertake inspections on a regular basis to ensure that procedures were implemented by the Kitchen Manager inline with Internal Audits recommendations.

Resolved: (i) That the Report (Ref: 7) be noted.

(ii) That the General Catering Manager be requested to submit a further Report to the next meeting on progress made on implementing Internal Audits recommendations.

5 INTERNAL AUDIT PLAN 2012/13 (REF: 8)

The Audit Manager presented the Internal Audit Plan 2012/13 (Ref: 8), which provided Members the opportunity to consider the Annual Audit Plan for 2012/13.

She advised Members that the focus of the Plan was a combination of assurance and risk audits that would enable the Audit Manager to provide an annual opinion on internal control for the Council and to address any emerging problems during each year. The Plan would be reviewed throughout the year, to take account of any new risks or issues faced by the Council.

She went on to say that due to resource issues, the Audit Plan for 2012/13 only consisted of 1100 days. However, Audit would continue to undertake key assurance audits as requested by the External Auditor and which had been identified.

Therefore, due to resource issues, the Audit Manager proposed that the

plan before the Committee be taken as an interim plan and that a revised Internal Audit Plan be brought back to Committee in six months time.

Councillor Pantling commented on the error made in omitting vital information from the Council Tax bills recently sent to residents.

The Head of Finance replied that the information omitted was information on the levels of increase and not the actual amount each household was required to pay for 2012/13. He added that this was an officer error, and although the cost to resolve this issue was in the region of £30,000, it was not of significant financial risk but a reputational one.

Councillor R. J. Davis commented that the error was regrettable but that mistakes do happen and added that an internal investigation had begun as to why the information was not included in the Council Tax Bills. If deemed necessary, a report would be submitted to the Executive.

Resolved: (i) That the Report (Ref: 8) be taken as the Interim Annual Audit Plan 2012/13

(ii) That the Executive be requested to approve the Interim Annual Audit Plan 2012/13.

6 INTERNAL AUDIT PLAN UPDATE (REF: 9)

The Audit Manager submitted a report in regards to the Internal Audit Plan Update (Ref: 9). Members were informed that despite resourcing constraints, Internal Audit continued to work hard, which was reflected by the low levels of sickness with only seven days recorded since April 2011. There had also been a higher percentage of productivity compared to previous years.

She went on to say that 65 Audit Reports had been issued in the year to date, which was a significant increase from 36 that had been issued mid November 2011. She added that out of the 65 final reports issued between 1st April 2011 and 31st January 2012, only five had been recorded with an opinion of Limited Assurance on controls including the Rent Deposit Scheme and Dallow Primary School.

Rent Deposit Scheme

Significant Weaknesses had been highlighted within the procedures for recovering rent deposits. She added that the total value of deposits issued in 2010/11 was £120K, of which only £3.6K had been recovered. It was acknowledged that it was not feasible to expect all applicants to be able to repay their deposits, and that due to limited staffing resources, it was not possible to chase repayment from all applicants. However, management intended to use

limited resources to target those who were more likely to be able to make repayments. Weaknesses were also highlighted within the recording systems in that all repayments received were manually input on to an Excel spreadsheet in which several errors had been made.

It was recognised that the Rent Deposit Scheme was a tool that potentially prevented the Council from incurring future housing costs, however, there was a lack of internal control to ensure that the service achieved its objectives. She added that if recovery procedures did not improve, the scheme could prove financially unviable.

Therefore it was Audits opinion that Limited Assurance be provided on the current standard of internal control.

Councillor Gale commented that the Rent Deposit Scheme had been set up to enable people who had hit rock bottom to be able to get a deposit on rented accommodation. He added that it was never expected that all applicants would be in a position to make a repayment. He went on to say that by providing applicants with a deposit, far greater savings were made rather than putting families etc into temporary accommodation.

Dallow Primary Control

The follow up review of Dallow Primary School had been completed following the Audit's opinion of Limited Assurance. The school had made significant progress with 18 of the 27 recommendations having been fully implemented, with work in progress on a further eight.

It was therefore Audits opinion that Adequate Assurance be provided.

Resolved: (i) That the receipt of the Internal Audit Plan, covering the period April 2011 to January 2012 be noted.

(ii) That the Audit Manager submit a follow-up Report in regards to the Rent Deposit Scheme to the September meeting of Audit and Governance.

7 INTERNAL AUDIT STRATEGY 2012/13 (REF: 10)

The Committee had before it the Annual Audit Strategy for 2012/13.

Member were advised that the level of resources continued to be under pressure due to a member of staff on maternity leave. As a result Internal Audit would concentrate on audits of key controls in the core financial systems as required by the External Auditor.

Resolved: That the Audit Strategy for 2012/13 be approved.

8 EXTERNAL AUDIT PROGRESS REPORT (REF: 11)

The Audit Manager for Grant Thornton gave a report in regards to the External Audit Progress.

The External Auditors had been on site in February 2012 and had undertaken detailed planning for the final accounts audit that were expected to be completed in March 2012. The outcome of the planning work would be summarised in an Annual Audit Plan that would be submitted to the next meeting of the Committee. This would include a review of the work conducted by Internal Audit during the year. He added that the main accounts would commence in July with findings presented to the September meeting.

He went on to say that in addition to the accounts audit opinion, the External Auditors were required to present a conclusion of value for money. In 2011/12, this would be based primarily on follow-up of the 2010/11 review of the Council's financial resilience, including a look at the progress made against savings plans.

Resolved: That the Report (Ref: 11) be noted.

9 EXTERNAL AUDIT PLAN (REF: 12)

The Audit Manager for Grant Thornton updated the Committee on the External Audit Plan and the Review of the Council's arrangements for securing financial resilience and Certification Report for 2011/12.

Members were informed that the audit plan fieldwork would commence in April. He added that this would include a review of the external auditors work conducted by internal audit during the year, with the main accounts audit commencing in July.

The Audit Manager for Grant Thornton notified Members that Value for Money in 2011/12 would primarily be based on detailed work on the Council's financial resilience, and that the Council had proper arrangements for challenging how it secured economy, efficiency and effectiveness.

He concluded that the External Audit fee for Luton Borough Council would be at least 10% lower than the 2010/11 fee.

Resolved: That the Report (Ref: 12) be noted.

10 CERTIFICATION WORK REPORT 2010/11 (REF: 13)

The Committee had before it a report in regards to the Certification Work

for 2010/11 produced by the External Auditors. Members were advised that various grant-paying bodies required to have an external certification of claims for grant or subsidy and returns of financial information. The 2010/11 work had identified the following significant issues:

Housing Benefit and Council Tax Benefit Subsidy Claim

Difficulties and delays to the certification process had been experienced due to the quality and availability of certain supporting working papers, in particular in respect of manual adjustments and the availability of officers to respond to queries due to the current flexible working practices of the Council.

The Audit Manager for Grant Thornton went on to say that the claim form had been amended and qualified due to the inclusion of ineligible rent accounts, which had resulted in an over claim of benefit, and an understatement of benefit due to the processing of extensive manual amendments that could not be quantified by officers. He added that the Council intended to discuss this issue with the Academy benefit software provider and had undertaken an exercise to review 645 cases that might be similarly affected to identify all cases where further instances had occurred.

National Non-Domestic Rates Returns

Members were advised that the return was required to be qualified due to the fact that the Council could not provide original support for five out of the fifteen small business relief reductions tested as part of the External Auditors certification. It could now be confirmed that the relief was correctly calculated for each of the reliefs tested.

In addition, from a sample of fifteen write offs tested, it was found that for three write offs totalled £71,577 the Council was unable to provide the relevant procedural evidence to support that the authoriser had approved write offs within authorised limits.

Resolved: That the Report (Ref: 13) be noted.

12 ACCOUNTING POLICY FOR HERITAGE ASSETS (REF: 15)

Approval was sought for the Accounting Policy to be applied for Heritage Assets for the 2011/12 Accounts.

Members were informed that the Accounting Standards Board had issued an FRS30 (Heritage Assets) to be adopted in the 2011/12 accounting year. Work had commenced to implement the FRS30 for the 2011/12 Statement of Accounts and that initial work had identified five separate groups of Heritage Assets. The proposed groups included:

- The Mossman Collection
- The Wenlok Jug
- Luton Museum Service Collections
- The Silver Room Collection (Civic Regalia)
- Archaeological Site (Wauluds Bank)

Resolved: (i) That the draft Accounting Policy for Heritage Assets be approved.

(ii) That the Head of Finance be instructed to make any necessary refinements to the Policy prior to the final Statements of Accounts being presented to the Audit and Governance Committee for approval.

(Note: The meeting ended at 7.30 pm)