

AUDIT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 6 December 2010

Present:

Councillor Michael Tickner (Chairman)
Councillor Lydia Buttinger (Vice-Chairman)
Councillors Reg Adams, Nicholas Bennett J.P.,
Simon Fawthrop, Julian Grainger and Stephen Wells

25 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Councillor Simon Fawthrop recorded apologies for lateness.

26 DECLARATIONS OF INTEREST

Councillors Julian Grainger and Stephen Wells declared personal interests in relation to the Local Government Pension Scheme and as local authority appointed school governors.

During consideration of the Internal Audit Progress Report, in relation to the Debtors, Councillor Simon Fawthrop declared a personal interest as an employee of a utility company.

27 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

No questions were received.

28 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 16TH SEPTEMBER 2010 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED that the minutes of the meeting held on 16th September 2010 be confirmed.

29 MATTERS OUTSTANDING FROM THE LAST MEETING

The following outstanding matters were discussed:-

(a) Waivers (Minute 19(h), 16th September 2010)

Members noted that a report would be considered by the Sub-Committee every six months. As the Sub-Committee had last considered a report in

September 2010, the next report should be presented in March 2011 however, the Deputy Chief Internal Audit explained that the report may be presented in June 2011.

(b) Risk Management (Minute 19(I), 16th September 2010)

The Chairman noted that the one page guide to risk management had been circulated amongst appropriate officer networks and suggested that this could now be removed from the matters outstanding.

**30 EXTERNAL AUDIT REPORTS (A) 2009/10 REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) (B) 2009/10 ANNUAL AUDIT LETTER
Report DR10108**

The Sub-Committee considered a report summarising the results of the external audit work undertaken by PriceWaterhouseCoopers for the 2009/10 audit. The report set out:

- Matters arising from their audit of the financial statements, including the pension fund accounts, which they are required to report to Members under the Audit Commission's Code of Audit Practice and International Standard on Auditing (UK & Ireland) 260 - "Communication of audit matters with those charged with governance"
- The results of their work under the Code of Audit Practice, to support the Value for Money conclusion
- Any changes to the audit plan(s) presented to Members in November 2009
- An audit fee update.

The auditors had also prepared the Annual Audit Letter to provide a high level summary accessible for members and other interested stakeholders. The matters reported in their Annual Audit Letter were those that they considered were the most significant for the Authority and a summary of the key recommendations that they had made could be found in Appendix A of the letter attached to the report.

Representatives from PriceWaterhouseCoopers attended the meeting and answered Members questions. During questioning the Sub-Committee was told that during the external audit process internal audit processes and controls had been reviewed. External auditors worked closely with the Council's internal audit department and information gathered through this process had been used to develop testing for the financial statement audit.

The Chairman asked the External Auditors for their observations on International Financial Reporting Standards (IFRS). The Auditors explained that IFRS was a significant exercise and LBB had been making good progress on the standards for having work completed in time for the publication of the 2010/11 accounts.

The Sub-Committee considered the importance of Value for Money (VFM) and the External Auditors stated that it was good that the Council's Internal Audit had a role in monitoring VFM. In terms of reviewing use of resources, the Auditors reported that they would be undertaking targeted VFM work and as part of this they had to assure themselves that the Council had processes in place to monitor the use of resources. A Member of the Sub-Committee asked the Auditors to comment on use of resources work as, despite a reduction in the work that was required, the fee for the work had remained the same and had not reduced. The Auditors explained that the work reported in the financial statement was work that had been undertaken in 2009, prior to the requirements being reduced. For 2009/10 the Auditors had undertaken all the work required for the use of resources report, however the requirement to publish the report had been withdrawn. The Director of Resources had been provided with the indicative scores for the Council. The fee for this year's work on use of resources would be reported in the 2010/2011 financial statement.

Referring to the Key Lines of Enquiry and the issue of financial reporting, a Member of the Sub-Committee asked who the stakeholders were and how the Auditors could assess whether the reporting met the needs of local people. The Auditors reported that they had worked with the Director of Resources and reviewed the budget process undertaken by the Council and the consultations that had been undertaken throughout the budget process. Another Member noted that the requirements for the effective use of natural resources had been met in 2008/09 but appeared not to have been met in 2009/10. The Auditors explained that the first year for this reporting was 2008/09 however, in 2009/10 there was not a requirement to report on this specific issue.

In response to a question surrounding whether as part of the external audit the Council's returns and balances had been considered to see if they represented VFM. The Auditors responded that the processes around treasury management would have been analysed as part of the audit. It was considered that the Council had tight management of treasury returns and the reserves currently held by the Local Authority were appropriate.

The Sub-Committee considered the levels of reserves that would be prudent and responsible. The Director of Resources reported that LBB was a heavily outsourced organisation and there were significant spending pressures within Adult and Community Services. As a result of these factors the Council needed a higher level of reserves than an authority that had more in-house services with greater financial flexibility.

In response to a question from the Chairman regarding the process for external audit once the Audit Commission had disbanded. The Auditors reported that there were still a number of unanswered questions and there were as yet no definitive answers. However, it was likely that local authority Sub-Committees would have a significant role to play in appointing auditors.

The Chairman thanked the representatives from PriceWaterhouseCoopers for attending the meeting and sharing their views with Members.

In response to a question from a Member regarding the presentation of accounts, the Director of Resources explained that the accounts for 2010/11 would be prepared under the new IRFS system. The main area of change would be around the valuation of property. Another Member requested that the Committee be sent Microsoft Excel versions of financial data to enable Members to analyse the accounts. The Director of resources agreed that files could be made available on One Bromley once appropriate requirements of Members were clarified.

RESOLVED that the reports be noted.

31 CODE OF CORPORATE GOVERNANCE Report DR10103

The revised Code of Corporate Governance had been drafted by officers and was issued for consultation with the Standards Committee and the Audit Sub-Committee. The revised Code incorporated the additional governance requirements resulting from CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government (2010)*. It also provided a framework for ensuring that the Annual Governance Statement reflected compliance with the CFO Statement.

Councillor Grainger expressed reservations regarding the four key roles of the Local Authority listed in paragraph 3.2 of the report as he did not feel that the roles listed were core priorities for Bromley. Referring to paragraph 3.6 of the covering report, Councillor Grainger also stressed that it was the Council that decided the arrangements for the proper administration of its financial affairs.

The Sub-Committee reviewed the changes that had been made to the Corporate Code of Governance:

Page 21: The Constitutional Improvement Working Group had produced four reports and not three as stated.

Page 23: Referring to the first supporting principle, Councillor Grainger suggested that this should be listed as a matter outstanding. There were 64 functions in the Schedule of Delegations that remained unclear as they were listed under 'Leader/Council'. As a result of this the principle of being clear about executive and non-executive functions was not being achieved.

Page 24: Referring to the second shaded section, the Director of Resources explained that the amendment clarified that the Director of Legal, Democratic and Customer Services was also the Monitoring Officer. The Sub-committee suggested that to ensure clarity the amendment should read: *...the Director of Legal, Democratic and Customer services (who is currently the Monitoring Officer)...*

Page 28: Referring to the fifth shaded section, the Sub-Committee suggested that the paragraph should be amended to read: *...are provided with appropriate financial training and tools on an ongoing basis...*

RESOLVED that the amendments outlined above be agreed and the revised Code of Corporate Governance be noted.

32 INTERNAL AUDIT PROGRESS REPORT Report DR10100

The Sub-Committee considered a report that informed Members of recent audit activity across the Council and provided updates on matters arising from the last Audit Sub Committee. The following matters were raised in particular:

(a) Use of cash payments across the Council

Members received an update on the use of purchase cards and pre-paid cards. The Sub-Committee heard that the value of transaction on the cards was between £40 and £200. The cards could be used for payments on travel, sundry items, hotel accommodation and internet purchases. Members heard that there was a transparent process for monitoring usage of the cards with line managers, internal audit, corporate procurement and the finance department authorised to monitor the use of the cards. Purchase cards were also paid every month which meant that no outstanding balance remained on the cards.

The Sub-Committee considered moving to an Oyster card based scheme for the pre-paid cards for young people leaving care. Members felt that the use of Oyster cards would be a natural progression as young people would have experience of using Oyster cards. The Head of Corporate Procurement stressed that young people were free to spend the money on the pre-paid cards as they wished. The Director of Resources suggested that the use of Oyster cards would have to be explored further in the future.

The Sub-Committee were told that personalised cards would be rolled out from the end of January 2011. In terms of the pre-paid cards for CYP a contractor had been appointed and the project would commence in January 2011.

The Head of Corporate Procurement stressed that the system of purchase cards would provide the Local Authority with better procurement intelligence and would provide all the information the Council needed in developing a procurement strategy.

RESOLVED that the Sub-Committee receive an update report on purchase cards and pre-paid cards in December 2011.

(b) Previous Priority One Recommendations

(During consideration of this item Councillor Simon Fawthrop declared a personal interest as an employee of a utility company and the parent of a child in a Bromley school.)

(i) Debtors

Referring to paragraph 3.16, Councillor Julian Grainger suggested that it would be helpful to have more detailed information on the debtors in each of the subsets listed in Appendix (i) as this would allow Members to have a clearer picture of whether debts were decreasing or increasing in each subset. The Head of Benefits and Revenues responded that the detailed information was reported to the Executive and Resources PDS Committee but suggested that a more sophisticated data set could be provided to the PDS Committee in future.

Referring to Appendix (i) a Member asked what action had been taken to resolve the dispute between the school and department. The Head of CYP Finance reported that the dispute related to fees due to the Property Division. Following further investigation the Head of CP Finance would report back to the Sub-Committee. Members also suggested that a report should be provided to the Children and Young People PDS Committee on school debts.

Members considered the issue of schools transferring to academy status and the Head of CYP Finance reported that as schools transferred to academies any outstanding debts owed to the Local Authority could be recovered. During the process of the transfer to academy status the Local Authority would become a joint signatory on cheques and every effort would be made to recover debts at this time,

RESOLVED that a report outlining the issues of school debt be referred to the Children and Young People PDS Committee.

A Member noted that over half of the long term debtors were for residential care. The Director of Resources explained that the biggest part of this long term debt was where charges were placed on properties and the Council was waiting for properties to be sold. Members of the Sub-Committee suggested that this issue should be referred to the Adult and Community PDS Committee for further review.

RESOLVED that the Adult and Community PDS Committee should receive a report, including a breakdown of the ACS-General category for debts over a year old and should be asked to make recommendations on how to reduce the level of long-term debt.

(ii) IT Disaster Recovery

A Member suggested that it would be prudent to have a disaster recovery plan for both LB Bromley and LB Lewisham. The Director of Resources reported that this was currently being reviewed and a documented procedure would be implemented.

(iii) Officers' Expenses

A Member noted that expenses for subsistence within the CYP Department had increased. The Head of CYP Finance reported that he would investigate and send an email to Members of the Sub-Committee outlining the reasons for the increase in the expenses.

Another Member suggested that it would be helpful to have details of the number of officers claiming the expenses as this would allow a more proportional view of the levels of expenses being taken.

(iv) Housing Benefit Update

A Member asked if the Local Authority claimed all the legal costs. The Deputy Chief of Audit reported that he believed that solicitor costs were recovered. The Assistant Director (Audit and Technical) suggested that the Sub-Committee should be provided with a breakdown of the costs that are recovered in the next report.

RESOLVED that an update be provided at the next meeting and that Officers seek to recover all reasonable costs incurred in Housing Benefit prosecutions.

The Sub-Committee considered proposals for publicising to claimants the successes in prosecuting benefit fraud cases. A number of proposals were considered such as including the latest press releases in letters sent to claimants. Following discussion the Sub-Committee supported the idea of including logos highlighting the sanctions for benefit fraud and the number of people convicted of benefit fraud. The Chairman suggested that Officers should be tasked with considering the comments made by the Sub-Committee and developing a proposal that could be reported to the next meeting.

Councillor Nicholas Bennett also requested that Members have sight of the forms sent to claimants.

RESOLVED that a proposal for advising claimants about benefit fraud prosecutions be presented to the Sub-Committee at the next meeting.

In considering the future government proposals for the investigation of benefit fraud Members of the Sub-Committee expressed grave concerns surrounding whether a centralised government department could be as effective in tackling benefit fraud as a local centre with local knowledge. Members stressed the importance of local knowledge in combating fraud.

RESOLVED that:

(a) the Chairman write to the Department for Work and Pensions on behalf of the Sub-Committee to outline Member's concerns regarding the government's proposals for the investigation of benefit fraud;

- (b) the matters arising from the internal audit progress report be noted;**
- (c) the breakdown for officer expenses be noted;**
- (d) the continuing achievements of the counter fraud benefit partnership with Greenwich Council be noted; and**
- (e) the success of partnership working with LB Greenwich be noted and referenced as a model for future such arrangements.**

33 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND THE FREEDOM OF INFORMATION ACT 2000

RESOLVED the Press and public be excluded during consideration of the items of business listed below as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

34 EXEMPT MINUTES OF THE MEETING HELD ON 16TH SEPTEMBER 2010

The exempt minutes of the meeting held on 16th September 2010 were confirmed.

35 INTERNAL AUDIT FRAUD AND INVESTIGATION PROGRESS REPORT

The Sub-Committee considered a report informing Members of recent Internal Audit activity on investigations across the Council and providing an update on matters arising from the last Audit Sub Committee meeting. The report detailed new areas investigated, expanded on cases of interest, detailed the cases on the fraud register and provided a further update on the results of the National Fraud Initiative (NFI).

The Meeting ended at 11.10 pm

Chairman