

Audit Committee

Monday 15 November 2010

PRESENT:

Councillor Berrow, in the Chair.
Councillor Evans, Vice-Chair.
Councillors Murphy, Stark and Thompson.

Independent Member: Mr. Stewart.

Apologies for absence: Mr. Clarke and Myles (Independent Members).

Also in attendance: Councillor Bowyer, Cabinet Member for Finance, Property, People and Governance, David Northey, Head of Finance, Sue Watts, Assistant Head of Devon Audit Partnership, Martin Gould, Head of Devon Audit Partnership, Malcolm Coe, Assistant Director for Finance, Assets, Efficiencies, Martine Collins, Revenues and Benefits Service Manager, Mike Hocking, Head of Corporate Risk and Insurance, Barrie Morris, Grant Thornton, Neville Cannon, Assistant Director for IT, Chris Melmoth, IT Auditor, and Katey Johns, Democratic Support Officer.

The meeting started at 2 pm and finished at 4.45 pm.

Note: At a future meeting, the committee will consider the accuracy of these draft minutes, so they may be subject to change. Please check the minutes of that meeting to confirm whether these minutes have been amended.

46. DECLARATIONS OF INTEREST

The following declaration of interest was made in accordance with the Members' Code of Conduct –

Name	Minute No. and Subject	Reason	Interest
Councillor Thompson	50. Revenues and Benefits Improvements Update	Plymouth Community Homes Board Member	Personal

47. MINUTES

Agreed the minutes of the meeting held on 24 September, 2010.

48. CHAIR'S URGENT BUSINESS

There were no items of Chair's urgent business.

49. PROJECT MANAGEMENT ARRANGEMENTS

The Head of Finance reported that, as a review of project management arrangements was currently being undertaken by the Capital Delivery Board, it would be appropriate to defer this item until a more comprehensive written report could be presented to Members early in the new year.

50. **REVENUES AND BENEFITS IMPROVEMENTS UPDATE**

The Revenues and Benefits Service Manager was in attendance to report on improvements made within Revenues and Benefits to address problems with processing housing benefit claims and to provide an overview of the future of the service. Members were advised that –

- (a) in July it had been reported that the oldest work was around seven weeks, however, this had since increased to 10-12 weeks due to a number of factors, namely –
- an increase in the number of new claims
 - peak holiday period and the effects of term time working

Resource had been allocated to focus on the oldest work and this would be monitored over the coming weeks;

- (b) by moving more experienced staff from the back office to the front desk, 80 per cent of customers were now receiving face-to-face contact and, as a result, those applications were able to be processed faster because all of the necessary checks were made by staff there and then;
- (c) there had been a 16 per cent (4,600) increase in housing benefit claims as a result of the recession with a three per cent (865) increase in July alone;
- (d) consideration was being given to making further improvements to benefit both landlords and customers, one such improvement being the ability to track progress with claims and payments on-line. This would help reduce the amount of contact to staff by those chasing progress with claims and enable staff to get on with the work in hand.

In response to questions raised, Members heard further that -

- (e) the main cause for delay in processing claims was due to the fact that customers were not providing all of the relevant information and/or evidence when submitting their initial applications. Claims could not always be progressed until the relevant evidence in support of a claim was received;
- (f) details regarding the total number of claimants was not to hand, however, this information could be circulated to Members after the meeting;
- (g) the Council did actively pursue and recover overpayments and a 40 per cent administration subsidy on some types of overpayment recovery was received. A significant amount of work had been done around data quality this year and this had been recognised by Grant Thornton;
- (h) Plymouth Community Homes was the Council's largest client, good processes and been put in place and established since the split and relations between the two were very good;

- (i) the whole structure of the Revenues and Benefits service was being looked at, including IT. The Academy IT system had been brought in a few years ago and there had been little investment in it since. However, officers were starting to look at ways in which IT could be used including electronically uploading rent increases as opposed to it being done manually;
- (j) it was not yet certain what the overall impact of Universal Credits will mean for Housing Benefit. The Council was aware that the aim was for this to be processed by the Department for Work and Pensions (DWP), however, some aspects such as temporary accommodation would be administered by the local authority. In preparation, significant changes to Local Housing Allowances (LHA) would be seen next year and the Council was beginning to assess the impact of this. More information on the LHA changes were expected from the DWP later this month;
- (k) historically benefits had been paid on a fortnightly basis and the introduction of additional payment dates could confuse the Council's IT system. However, this was not a certainty and further investigation on what could be achieved in this regard could be undertaken.

Agreed that –

- (1) with regard to (f) and (k) above, written responses be provided in respect of –
 - the total number of housing benefit claimants
 - whether additional payment dates could be introduced to the system

Recommended that –

- (2) the Overview and Scrutiny Management Board (or relevant scrutiny panel) monitors the review of the Revenues and Benefits Service and progress against the action plan produced by the external auditor, Grant Thornton.

(Councillor Thompson declared a personal interest in respect of the above item).

51. **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

The Head of Finance reported that the International Financial Reporting Standards (IFRS) had been introduced by Statute to make financial reporting more transparent and to make it easier to draw comparisons between local authorities. These Standards were adopted by the Private Sector in 2005 and Central Government and NHS in 2009. Plymouth City Council was taking a risk-based approach to the restatement of the Balance Sheet numbers. It was also stated that these Standards had an impact across the Authority (Human Resources, Assets and Procurement being given as examples) and Finance was engaging both Internal and External Audit in the process.

As these changes would have a huge bearing on the signing off of the next Statement of Accounts (2010/11) it was suggested that Members may benefit from some form of training in this regard.

Agreed that a workshop/training event on the International Financial Reporting Standards for the benefit of Audit Members be arranged early in the new year.

52. **TREASURY MANAGEMENT STRATEGY 2010/11 - MID-YEAR REVIEW**

The Assistant Director for Finance, Assets and Efficiencies gave an overview of the report and its highlights which included that the City Council –

- had reduced its overall borrowing by £6.977m
- had repaid a debt of £33.9m to Devon County Council
- was currently only investing in UK institutions and for periods of no longer than 12 months
- was forecasting a favourable revenue outturn of £0.139m
- was continuing to challenge Icelandic investments through the Local Government Association and Bevan Brittan

It was also reported that, in looking forward, the Council would –

- consider making investments of up to 2 years in order to benefit from higher interest rates
- upon the advice of our professional advisors, look to increase its counter-party list to include top credit rated organizations outside of the UK
- optimise short term borrowing rates
- continue to balance risk versus return

In response to questions raised, Members were advised that -

- (a) cash projection updates were done daily as part of an automated process linked to the Council's creditors/payroll system;
- (b) the Council had had to pay part year interest repaying the Devon debt. This transaction was financially beneficial for Plymouth, generating a full year revenue saving of approximately £150k, whilst giving the Council flexibility of managing the debt itself;
- (c) the availability of a version of the November 2010 revised Treasury Management Practices, highlighting changes from the previous version, would be made available to the Committee;
- (d) the Council had a policy of paying suppliers in line with agreed terms of trade and service standards and was performing well in this regard;
- (e) instructions for banking of receipts were set out in the Council's Financial Regulations, however, it was acknowledged that this could be improved and a piece of work was currently being undertaken to help tighten up the income collection process. Officers would investigate the delay in processing cheques through the Lord Mayor's Parlour;
- (f) the Council's Treasury Management advisors, Arlingclose, had been appointed in January 2009, shortly after the collapse of the Icelandic banks. The Council had not made any long-term financial investments since this

appointment as its policy response was to keep investment maturities to a maximum of 12 months;

- (g) there were still a few longer-term investments in the system, made before October 2010, that exceed 12 months in duration, for example a sum of £3m invested in Barclays at a rate of 7.1%;
- (h) Regarding Icelandic investments, no calculations had been done to estimate what would have been received had the money been invested at the current interest rates.

Agreed –

- (1) that with regard to (c), (d), (e) and (h) above, Officers provide to Committee Members -
 - a copy of the revised Treasury Management Practices showing the changes
 - figures relating to performance against the agreed terms of trade with creditors
 - a written response to the delay in processing cheques received by the Lord Mayor's Parlour
 - a written response on how much interest could have been received from the Icelandic bank investments
- (2) that the report be noted and commended to Full Council in accordance with Treasury Management Practice (TMP) note 6;
- (3) the updated Treasury Management Practices as outlined at Appendix 3 to the report.

53. **ANNUAL AUDIT LETTER 2009/10**

The City Council's external auditor, Grant Thornton, submitted the Annual Audit Letter 2009/10 for consideration. The letter summarised the key messages and conclusions which had arisen from the work of Grant Thornton during their 2009/10 audit, namely –

- auditing the 2009/10 year end accounts
- certification work on grant claims and returns
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources

Councillor Evans challenged the external auditor's opinion that the governance arrangements put in place around the disposal of Plymouth Citybus were appropriate (paragraph 3.34). He raised concerns about –

- scrutiny of the disposal process and queried how it could have been effective when answers to questions asked had been refused
- how a marketing exercise to 'test the water' had turned into a full-on disposal

Members acknowledged that it had been a very difficult process with a balance having been drawn between what information could be put into the public domain and what could not. Councillor Stark shared Councillor Evans' concerns about the market testing exercise and drew comparison with the current marketing of the Civic Centre stating that he hoped that did not turn into a sale without prior consultation with Members. Overall, Members were happy to accept the external auditor's view that the process had been appropriate and that areas for improvement around transparency had been identified and highlighted within paragraph 3.35 of the report.

Questions were also raised in regard to data protection and data management but it was suggested that, as this was covered in more detail in the Internal Audit – Six Monthly Progress Report which featured later on the agenda (see minute 55), those questions be considered there.

Recommended that the Overview and Scrutiny Management Board (or relevant scrutiny panel) –

- (1) monitors progress against the action plan arising from the Citybus Review;
- (2) reviews progress on the Joint Strategic Needs Assessment (JSNA) to ensure that –
 - the intentions of the JSNA are translated into a wide range of actions within service plans, supported by key targets and measures that partners would be able to use to monitor progress
 - the Council, and its partners, were refining the JSNA to ensure that it reflects the new arrangements (i.e. changes to the way that health services were to be managed and delivered) and were able to respond to any new or emerging challenges

(Councillor Evans' proposal to move that the Annual Audit Letter be endorsed by the Committee with the exception of paragraph 3.34, having been seconded by Councillor Murphy, was put to the vote and declared lost).

54. **2009/10 AUDIT PLAN PROGRESS REPORT**

The City Council's external auditor, Grant Thornton, submitted its audit plan progress report in respect of projects undertaken in 2009/10.

The Committee noted the report.

55. **INTERNAL AUDIT - SIX MONTHLY PROGRESS REPORT**

The Assistant Head of Devon Audit Partnership submitted the six-monthly progress report which –

- reviewed audit work which had been carried out since April, 2010
- commented on current commitments and performance
- outlined proposed audit coverage for the remainder of the financial year

Members were advised that performance and progress with the 2010/11 plan had been very good and particular attention was drawn to examples of where Internal Audit had provided value for money, and delivered tangible benefits, to the Council.

Overall, based on the work performed in the first six months, Internal Audit was able to provide reasonable assurance on the Authority's internal control environment. However, the review of the Corporate Information Management System had identified a number of 'fundamental weaknesses' in the Council's current information governance arrangements. In attendance to provide further information on the audit review and its findings was the auditor responsible for undertaking the review along with the Assistant Director for IT to respond to Members' questions.

Members were advised that –

- (a) the review had been split into two parts –
 - to look at governance, structure, strategies, etc. to check that they were in existence
 - to see whether those processes were embedded throughout the authority at departmental level
- (b) the review had established that information governance was not recorded consistently as a risk across the Authority and the current weaknesses could result in poorly informed decisions at any level of the organisation and have an adverse effect on the –
 - provision of frontline services
 - effectiveness of partnership working
 - completeness and accuracy of the Authority's annual accounts
 - Council's performance as a whole
- (c) the Council recognised the significant importance of Corporate Information Management at a corporate level and to this end Adam Broom had been identified as the Senior Information Risk Officer. However, this had not extended down to department level as no Information Risk Officers had yet been identified;
- (d) it was recognised that a cultural shift was required and that this would take some time. In order to help achieve this, it was suggested that information governance be incorporated into the risk management process and be included as a separate element in staff appraisals. The Operational Risk Management Group would be looking at more detailed guidance at its next meeting in December.

Members raised concern that the Internal Audit Six-Monthly Report had identified that progress in achieving productivity improvements within the Devon Audit Partnership (DAP) had not matched initial expectations. Members were advised that this was due to the continued inability of DAP's IT service provider to provide acceptable service provision. Whilst there had been some recent improvement, the impact on delivery of the audit plan had been significant due to the amount of time lost. The Head of DAP would be meeting with the Head of IT the following week to try and resolve the situation.

The Committee noted the report and agreed –

- (1) the adjustments to the 2010/11 Audit Plan;
- (2) that minutes of the meetings of the Management of Information Security Forum be incorporated as a standing item on the Audit Committee agenda;
- (3) that the Senior Information Risk Officer, or appropriate representative, be invited to attend the next meeting to update the Committee on how the information management principles were being embedded throughout the organisation.

Recommended that –

- (4) the Overview and Scrutiny Management Board (or appropriate panel) considers the problems highlighted within the Devon Audit Partnership relating to IT service provision to ensure that the issues were resolved.

56. **AUDIT COMMITTEE FORWARD WORK PLAN**

The Committee considered its work programme for 2010/11. Having regard to the issues referred to scrutiny in minutes 50, 53 and 55, it was agreed that should they not be endorsed by the Overview and Scrutiny Management Board the following would instead be included within the work programme of the Audit Committee –

- monitoring the review of the Revenues and Benefits Service and progress against the action plan produced by the external auditor, Grant Thornton
- monitoring progress against the action plan arising from the Citybus Review
- reviewing progress on the Joint Strategic Needs Assessment (JSNA) to ensure that –
 - the intentions of the JSNA are translated into a wide range of actions within service plans, supported by key targets and measures that partners would be able to use to monitor progress
 - the Council, and its partners, were refining the JSNA to ensure that it reflected the new arrangements (i.e. changes to the way that health services were to be managed and delivered) and were able to respond to any new or emerging challenges
- consideration of the problems highlighted within the Devon Audit Partnership relating to IT service provision to ensure that the issues were resolved

57. **EXEMPT BUSINESS**

There were no items of exempt business.