

## AUDIT AND RISK COMMITTEE

ABERDEEN, 27<sup>th</sup> April, 2010. - Minute of Meeting of the AUDIT AND RISK COMMITTEE. Present:- Councillor Crockett, Convener; Councillor Farquharson, Vice-Convener; Lord Provost Peter Stephen; and Councillors Cassie, Cooney, Cormie (as substitute for Councillor McDonald), Donnelly, Dunbar (as substitute for Councillor John West), Hunter, Penny, Robertson, John Stewart, Kevin Stewart and Wendy Stuart.

### **DETERMINATION OF EXEMPT BUSINESS**

1. In terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, the Committee resolved to exclude the press and public from the meeting during consideration of the following items of business so as to avoid disclosure of exempt information of the class described in the following paragraphs of Schedule 7(A) to the Act:- article 9 (paragraph 6); articles 10 and 11(paragraph 1); and article 12 (paragraphs 1, 6, 8 and 10).

### **MINUTE OF PREVIOUS MEETING**

2. The Committee had before it the minute of its previous meeting of 2<sup>nd</sup> March, 2010.

#### **The Committee resolved:-**

- (i) that in relation to Article 1, resolution (ii), to note the oral update provided by the Convener in regard to breaches of confidentiality and to request that a written note of the meeting between the Convener, Vice-Convener, Chief Executive and the Director of Corporate Governance be circulated to the Committee; and
- (ii) to approve the minute subject to amending Article 1, resolution (iii), to read:- in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the press and public from the meeting during consideration of items 3.1 and 3.2 on the agenda (articles 7 and 8 of the minute refers) so as to avoid disclosure of exempt information of the class described in paragraph 1 of Schedule 7(A) of the Act.

### **COMMITTEE BUSINESS STATEMENT**

3. The Committee had before it a statement of business prepared by the Head of Legal and Democratic Services.

#### **The Committee resolved:-**

- (i) that in relation to item 3 (RM – CC/SA/0708 – Allocation of Central Charges), to request the Head of Finance to report to this Committee once the work had been completed;

- (ii) that in relation to item 5 (Tied Houses), to note (a) the oral update provided by the Head of Asset Management and Operations; and (b) that reports would be submitted to this Committee and the Finance and Resources Committee in the next cycle of meetings; and
- (iii) to otherwise note the statement.

#### **AUDIT PROGRESS REPORT 2009/10**

4. The Committee had before it a report by Henderson Loggie, external auditor which detailed progress in relation to the external audit operational plan for 2009/10.

**The Committee resolved:-**  
to note the report.

#### **INTERNAL AUDIT REPORT ISSUED**

5. The Committee had before it (1) a report by the Internal Audit Manager which appended a recently completed audit report on the following service:- Corporate Governance – Application Ownership and Support, issued in March, 2010; and (2) a management statement from the Director of Corporate Governance in response to the completed report.

**The Committee resolved:-**  
to approve the issue of the internal audit report and endorse the recommendations for improvement contained therein.

#### **BANK RECONCILIATION PROGRESS REPORT**

6. With reference to Article 6 of the minute of its meeting of 2<sup>nd</sup> March, 2010, the Committee had before it a report by the City Chamberlain which provided an update on the progress to date in relation to the bank reconciliation process and the implementation of the automatic bank reconciliation module.

The report advised that since the last update to the Committee, there continued to be positive progress in relation to the bank reconciliation with continuing timely and robust clearance of items from the reconciliation to ensure that it was up-to-date with the timescales agreed for the process. The February reconciliations had been completed and work had commenced on the preparation of a comprehensive year-end report on the reconciliations. The report explained that the Automated Bank Reconciliation Project Board had been discontinued in February 2010 due to the development and implementation stage of the project being completed and moving to the operation and maintenance stage.

**The report recommended:-**

that the Committee note the current positive progress on maintaining the bank reconciliations and on the implementation of the automated bank reconciliation system.

**The Committee resolved:-**

to approve the recommendation contained in the report.

**ANNUAL AUDIT PLAN 2010/11**

7. The Committee had before it a report by the Director of Corporate Governance which informed members of the development of the Annual Audit Plan for 2010/11 and sought approval of its content.

The report advised that the Annual Internal Audit planning process was designed to ascertain the level of audit resource required, achieve optimum use of audit time and to ensure that the maximum benefit was derived from the audit process for the organisation.

The report summarised the process used to update the Strategic Plan and appended the Audit Plan for 2010/11 which listed the planned audits for each Service.

**The report recommended:-**

that the Committee –

- (a) approve the Annual Audit Plan 2010/11;
- (b) note that the planned outsourcing of Internal Audit Services was progressing and that the completion of the plan in future years would fall to the successful bidder; and
- (c) agree that the content of the Annual Plan be received on a quarterly basis and that any proposed amendments be reported to the Committee together with a statement of progress against the Annual Plan.

**The Committee resolved:-**

to approve the recommendations contained in the report.

**HOUSING BENEFIT AND COUNCIL TAX BENEFIT SUBSIDY CLAIM 2007/08**

8. The Committee had before it a report by the Director of Corporate Governance which informed members of the current position in relation to the Housing Benefit and Council Tax Benefit Subsidy Claim 2007/08.

The report advised that the Housing and Council Tax Benefit Service made benefit payments totalling £52.03m in 2007/08 and £53.25m in 2008/09. The Council reclaimed the expenditure via the Subsidy Regime which was subject to external audit scrutiny. The 2007/08 Subsidy Claim was submitted to the Department of Work and Pensions (DWP) at the end of May 2008, which was then audited by the external auditors with their assessment being completed by November 2008.

Subsidy payments were made based on the claim submitted to the DWP in May with any adjustments being made after the subsidy had been audited.

The subsidy in 2007/08 was audited by Henderson Loggie who adopted Audit Commission Guidance of using the 'HB Count' methodology which was not mandatory across all Scottish Councils. As a result, a number of adjustments were identified and extrapolated across the whole benefit caseload which resulted in a qualification of the Council's subsidy claim seeking an adjustment of 0.51% (circa £264,490).

Further to this, in July 2009, the DWP advised the Council that there had been a technical breach in the referral of rent allowances in respect of charitable organisations. These cases were investigated by the Service, which rectified the technical breach and concluded that a reasonable adjustment should, at its maximum, be 0.36% (circa £187,509), which was the overall loss to the public purse subsidy claimed, rather than the potential 1.7% (circa £900,000) that had been identified by the DWP. Taking account of the two separate issues, the Service had made representations, and believed that the reasonable adjustment would be in the region of 0.53% (circa £274,177) and not the maximum 1.96% (circa £1.023m) of total subsidy claimed.

The report explained that due to the timing of the issue, the matter had been carried forward into the 2008/09 claim which the DWP had not considered to date although it was envisaged that they would take a similar approach when considering the 2008/09 claim. The Service believed that future adjustments should be limited to 0.25% (circa £132,663), which was the loss to the public purse rather than the potential 2.2% (circa £1.178m) of total subsidy claimed.

The report stated that the Service, and Henderson Loggie, had raised with the DWP that the methodology used may have disadvantaged the Council compared to other Scottish Councils where a different methodology had been used. Henderson Loggie also supported the view of the Service that the approach taken with the rent referral issue was reasonable.

The report added that feedback was awaited from the DWP, which was expected during mid May, as to the level of adjustment to be applied.

**The report recommended:-**

that the Committee -

- (a) request the Director of Corporate Governance to continue to liaise with the Department of Work and Pensions to ensure that the Council maximised the level of Benefit Subsidy due to the authority;
- (b) agree to receive an update the outcome of those ongoing discussions; and
- (c) note that the City Chamberlain would be required to take account of this issue in preparation of the closing of the draft accounts for 2009/10.

**The Committee resolved:-**

- (i) to note that Henderson Loggie would circulate details on the actual number of sample cases that had been audited; and
- (ii) to otherwise approve the recommendations contained within the report.

In accordance with the decision recorded under Article 1 of this minute, the following items were considered with the press and public excluded.

### **AUDIT OUTPUTS, INPUTS AND FEES**

9. With reference to Article 5 of the minute of its meeting of 2<sup>nd</sup> March, 2010, the Committee had before it a report by Henderson Loggie, External Auditor, which provided a breakdown of the costs associated with the annual fee for undertaking the external audit function.

The report advised that the Council's audit was completed under the 'fee for audit' concept which set a level of audit fee based on the outputs that would be delivered and would normally be set within an indicative fee range notified by Audit Scotland to the Chief Executive in the autumn of each year. The outputs delivered were influenced by statutory requirements and the requirements of the annual Audit Scotland planning guidance.

The report provided a breakdown of the planned outputs which contained graphical information to show the level of work to be undertaken and the percentage of officer time required to carry out the work.

#### **The Committee resolved:-**

- (i) to thank the External Auditor for providing the information in such a helpful format; and
- (ii) to note the information provided.

### **INTERNAL AUDIT REPORTS ISSUED**

10. The Committee had before it (1) a report by the Internal Audit Manager which appended recently completed audit reports on the Services as detailed below; and (2) management statements from the appropriate Director in response to each of the completed reports.

<b><u>Service</u></b>	<b><u>Title</u></b>	<b><u>Date Issued</u></b>
Corporate Governance – Human Resources	Health & Safety	February 2010
Education, Culture & Sport	Education Establishments Financial Control	February 2010

#### **The Committee resolved:-**

to approve the issue of the internal audit reports and endorse the recommendations for improvement contained therein.

## **IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS AND RESULTS OF PHYSICAL VERIFICATION**

**11.** The Committee had before it a report by the Internal Audit Manager which (1) detailed a number of recommendations previously approved in audit reports issued, the implementation of which was overdue; and (2) for selected audits, advised on the implementation status checks on recommendations advised by auditees to Internal Audit as completed.

The Committee received updates from various officers in relation to the audit recommendations affecting their services and considered revised implementation dates where appropriate.

### **The Committee resolved:-**

- (i) that in relation to Audit RM-RDD/CT/0802 (Hanover Street School Refurbishment Contract) to approve the revised implementation date of 31<sup>st</sup> May, 2010 in respect of items 4.2.4.2 (i) and 4.2.6 (i);
- (ii) that in relation to Audit CG/SA/0911 (Marischal College) item 4.2.1, to record its dissatisfaction that no officer was present to provide an update;
- (iii) that in relation to Audit HE/SA/0931 (Homelessness) – items 4.2.2 (i) and (ii), to record its dissatisfaction that no officer was present to provide an update and to instruct officers to submit a report to the next meeting;
- (iv) that in relation to Audit CG/R0918 (External Management Information) item 4.2.1, to note that a report had been submitted to the Social Care and Wellbeing Committee on 22<sup>nd</sup> April, 2010, with a further report to be submitted to that Committee in June 2010; and
- (v) to instruct Directors to ensure that when an Audit report relating to their Service was before the Committee that an officer was present to discuss the relevant issues.

### **MATTER OF URGENCY**

**The Convener intimated that he had directed in terms of Section 50(B)(4)(b) of the Local Government (Scotland) Act 1973 that the following item of business be considered as a matter of urgency to enable the contract to be awarded and for work to commence by 1<sup>st</sup> June, 2010.**

### **CONTRACT AWARD – INTERNAL AUDIT SERVICES**

**12.** With reference to Article 12 of the minute of its meeting of 12<sup>th</sup> January 2010, the Committee had before it a report by the Director of Corporate Governance which provided an update on the recent tender exercise for the supply of Internal Audit Services for the Council and sought approval to award the contract to the preferred bidder.

The report advised that two responses to the advertisement had been received and that officers within Corporate Governance had undertaken a comprehensive

evaluation process, assisted by the Council's Central Procurement Unit. As a result of the evaluation process a preferred bidder had been identified.

**The report recommended:-**

that the Committee approve the following proposal for its interest and remit it for approval to the Finance and Resources Committee:-

Subject to the agreement of terms and conditions and the signing of contracts, to award the contract for the supply of Internal Audit Services for Aberdeen City Council, for a period of three years, with an option for a one year extension, to PricewaterhouseCoopers LLP.

**The Committee resolved:-**

- (i) to request officers to ensure that all relevant information is included in future reports seeking approval to award a contract to a preferred bidder, particularly in regard to whether information had been submitted after the deadline and had to be disregarded on that basis; and
- (ii) to otherwise approve the recommendation contained in the report.

- **BARNEY CROCKETT, Convener.**