

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON TUESDAY, 2 DECEMBER 2008**

MEMBERS

* Cllr M J Howarth - Chairman

* Cllr J T Pennington - Vice-Chairman

∅ Cllr P Coulson

∅ Cllr G Date

* Cllr R F Croad

* Denotes attendance

∅ Denotes apology for absence

Officers in attendance: For All Agenda Items:
Strategic Director (Resources), Internal Audit Managers, (South Hams & Teignbridge), Member Support Services Manager and Member Support Officer

Officers in Attendance: For individual Items:
Item 6: (minute A.21/08 below refers) Head of Customer Services
Item 7: (minute A.22/08 below refers) Head of Environment Services
Item 8: (minute A.23/08 below refers) Chief Accountan

A.17/08 **MINUTES**

The minutes of the meeting of the Audit Committee held on 9 September 2008 were confirmed as a correct record and signed by the Chairman.

A.18/08 **URGENT BUSINESS**

The Chairman advised that he had agreed for one item of urgent business to be raised this meeting. The item related to the draft Audit report on Treasury Management and would be considered alongside item 7: Progress Against the 2008/09 Internal Audit Plan. (minute A.22/08 below refers).

A.19/08 **DECLARATIONS OF INTEREST**

Members were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

A.20/08 **ANTI MONEY LAUNDERING POLICY AND PROCEDURES**

Members considered a report which provided them with an overview of the impact on the Council of the Proceeds of Crime Act 2002 and other related legislation, namely the Money Laundering Regulations 2003 and Terrorism Act 2000, and also to seek a recommendation to the Council of approval of the Council's Anti Money Laundering Policy.

Annex A of the presented report highlighted subsidiary activities which would be categorised as money laundering. These were concealing (i.e. knowing or being suspicious of a case of money laundering but not disclosing it), assisting in an act of money laundering, benefiting from money laundering by receiving cash or goods and tipping off a suspected individual that they were under investigation.

The report outlined the measures that the Council was taking following guidelines by the Chartered Institute of Public Finance and Accountancy (CIPFA), where the emphasis was on implementing procedures to prevent and forestall money laundering. This included a guide to staff and a pro-forma for reporting suspicions.

During discussion the following point was raised:-

- i) A Member requested clarification regarding whether the Council would meet all the requirements of the new legislation. The Internal Audit Manager replied that there was some debate as to whether the previous policies would have met all the requirements, hence the department has updated the procedures, as outlined in the presented report, to align with the recommendations by CIPFA.

RECOMMENDED

That the Council be **RECOMMENDED** that:-

1. the Anti Money Laundering Money Policy be adopted; and
2. that the S.151 Officer be appointed as the 'Money Laundering Reporting Officer'.

A.21/08 **UPDATE ON DEBTORS SYSTEM**

The Head of Customer Services tabled an update to Members on the progress of the Debtors System and tabled a paper titled 'the Sundry Debt Lean Review action plan 2008' as requested at the last meeting.

The Lean Review Action Plan identified a number of processes where improvements could be made and outlined revised arrangements. The areas identified for improvement were:-

Core Process:

- Removing the Final Notice Stage;
- Establishing cost benefit ratios for referral of cases for enforcement for differing levels of debt; and
- Seeking authorisation of Service Managers to recover debt

Invoices:

- Issuing invoices for amounts under £15 e.g. by law for peppercorn rents. (The administration cost to raise an invoice is between £15 -25);
- Checking of invoices by service managers before despatch;
- Corporate process for invoices raised by third parties; and
- Frequency of requests for copy invoices

Cancellation of Invoices:

- Review of which individuals should enter suppressions on the system; and
- Review of authority to cancel invoices.

Arrangements to Pay:

- Standardisation of arrangements to pay
- Preparation of comprehensive guide for officers re collecting Sundry debt (to be prepared by Revenues Manager).

Reminder Letters:

- Standardisation in phases of issue;
- Standardisation in recovery routes; and
- Clarity re consequences for non payment

Legal Letters:

- Authorisation for recovery from Service Managers;
- Clarity re ensuing action for non payment; and
- Standardisation of issue 28 days from reminder letter.

Periodical Income:

- Review of transfer of responsibility to Property Services.

Write Offs:

- Establish automatic write off level; and
- Revenues policy for debt write offs to be adapted for corporate use.

Administration

- Audit trail for transfer cash requests; and
- CCJ applications to be included in administration process (rather than undertaken by the Legal Services).

The proposed deadline for the implementation of these revised arrangements was March/April 2009.

The Head of Customer Services advised that the actions regarding housing benefit overpayments would follow a different timescale due to the requirement to test new software which was due to go live in January 2009. During the subsequent six weeks, a process would be in place to transfer all data from the old system to the new system. The Head of Customer Services highlighted the potential impact on the transfer process should any member of staff be absent during that time, due to the small number of staff in the team.

During discussion, the following points were raised:

- i) A Member enquired if the Lean Review actions related only to South Hams Council processes. In response, the Strategic Director (Resources) made reference to an exempt report re the Revenues and Benefits Shared Services project which was due to be considered at the Executive meeting on 4 December 2008.

The Officers also advised that the workload in the area of debt management was likely to increase in view of the current economic climate and the forecast of a prolonged recession. The new systems introduced, (particularly regarding the reduction in costs of debt recovery), were timely, but because of the increased workload arising, this could make analysis more difficult to assess in the short-term.

- ii) A Member queried the cost quoted (£15-25) for raising an invoice. The Head of Customer Services replied that more detailed analysis would be required to ascertain where the costs were and how this figure had been reached. The Strategic Director (Resources) added that it was important to understand the relationship between portion costs and marginal costs to understand how actual costs were ascertained.

The Internal Audit Manager advised that the next audit of the Debtors system would be either in January, February or March 2009, but the external auditor would still want the old system to be covered and 2008/09 transactions tested.

RESOLVED

That:-

1. the Lean Review Action Plan 2008 be noted;
2. that the Committee extends its thanks to the Head of Customer Services and her staff for the impressive work undertaken to date.

A.22/08 **PROGRESS AGAINST THE 2008/09 INTERNAL AUDIT PLAN**

A report was considered which informed Members of the principal activities and findings on the Internal Audit section of Financial Services to 31 October 2008. The report provided a summary of the main issues arising from completed individual audits and also demonstrated the progress made by the section against the 2008/09 annual audit plan.

In light of the Committee wishing to discuss elements of the exempt appendices, it was:-

RESOLVED

That in accordance with Section 100(A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting during consideration of the following item of business as the likely disclosure of exempt information as defined in paragraph 7 of Schedule 12A to the Act is involved.

Dartmouth Lower Ferry Issued 24.09.2008

In discussion on the exempt appendices, it was requested that the Head of Environment Services, provide Members with more detailed information on alternative options to the current voucher system used on the Dartmouth Lower Ferry.

Coast Protection – Dartmouth Embankment Issued 10.07.2008

The Committee also stated it wished to consider updates in the future regarding the management of the Embankment at Dartmouth.

Salcombe Harbour – Creek Boat Park Investigation Follow-Up of 2007/08 Audit Report

Members noted that all the high priority recommendations had now been implemented.

BVPI'S 2007/08 Outturn Issued 20.10.2008

Members noted that overall the BVPIs rated at best Fair. The Committee expressed a wish to re-examine this area in more detail next year when there would be fewer national indicators.

Non-Distributed Costs Issued 20.10.2008

Members also wished to extend their congratulations to the Head of Human Resources and Personnel Manager for obtaining the first 'excellent' grade in the opinion of Internal Audit under the new assessment criteria in relation to non-distributive costs.

Treasury Management Draft Report

Members requested that in light of the recent problem with investment in a British subsidiary to an Icelandic Bank, it would be useful to clarify what data sources staff in financial services used to make assessments on investment decisions, particularly in terms of both short and long term investments.

It was then:-

RESOLVED

That:-

The public and press be re-admitted.

It was then:-

RESOLVED

That:-

1. A Review of the merits of various voucher systems and their alternatives for Dartmouth Lower Ferry, be presented at a future Prosperity Development Group and further discussed at the next Audit Committee Meeting;
2. The next audit of the Dartmouth Lower Ferry be undertaken early in 2009/10
3. The Committee continue to receive updates in the future regarding the latest position on the Embankment at Dartmouth;
4. The Head of Human Resources and the Personnel Manager be thanked for their work on non distributed costs which was graded as 'excellent'.

A.23/08

INTERNATIONAL REPORTING STANDARDS – (FORTHCOMING CHANGES TO THE STATEMENT OF ACCOUNTS)

Members considered a report which outlined the transition from using UK Generally Accepted Accounting Practice (UK GAAP) in preparing the annual statement of accounts, to using the International Financial Reporting Standards (IFRS) following an announcement by the Treasury that all public sector bodies must adopt them for 2009/10 reporting and thereafter. CIPFA (Chartered Institute of Public Finance and Accountancy) had therefore announced a new governance framework for the Code of Practice on Local Authority Accounting. External auditors had recommended that Audit Committee Members

be kept informed of the latest developments because of their role in scrutinising accounts and because there was a potential cost to councils arising out of the changes.

The Chief Accountant, who presented the report, advised that during the transition process of adopting the new practices, two sets of accounts, one using UK GAAP practice and one using the new IFRS practices were required to be produced for comparative purposes. He advised that the extra workload would have a huge impact on staff resources during this period.

As an example, of the sort of change that might be implemented, he cited the process of revaluing assets for balance sheet purposes. Fixed assets are currently valued every five years, but this process may be required to take place annually in the future. Moreover, the valuation could be per component of each asset. If this was the case, the life expectancy of each component would also have to be assessed. The Chief Accountant also highlighted the issue that the volume and complexity of the new standards, combined with the increase in the number of disclosures, would present a challenge to the Council and that the new practices were going to place a significant burden on staff resources, both in the Finance and the Property Services Sections.

During the discussion, the following points were raised:-

- i) A Member expressed concern about the proposed transition and enquired if it was possible to opt out of these practices. The Chief Accountant replied that all Accountancy bodies were signed up to the transition and that it was not possible to opt out. In addition, the point was made that the new arrangements were already being implemented in the NHS and other public sector bodies;
- ii) Members raised concerns about the resource implications and what the benefits were (if any) in adopting this system. The Strategic Director (Resources) shared the concerns of Members but agreed with the Chief Accountant that lobbying would have little, if any, impact.

It was then:-

RESOLVED that

1. That the move to International Financial Reporting Standards (IFRS) for local authorities be noted.
2. The process involved in introducing IFRS, and the project management framework be adopted.
3. Concern be expressed about the resource implications of the move, and the apparent lack of any cost-benefit analysis.

A.24/08 **RISK MANAGEMENT - (QUARTERLY REVIEW)**

Members considered a joint report of the Risk and Health & Safety Advisor and the Strategic Director (Resources), which provided a quarterly update on risk management matters and concluded that the Council's risk management systems were developing satisfactorily.

It was then:-

RESOLVED

That the contents of the report be noted.

(Meeting commenced at 10.00am and concluded at 12.15pm)

Chairman