

ASSEMBLY

18 MAY 2011

REPORT OF THE PUBLIC ACCOUNTS AND AUDIT SELECT COMMITTEE

Title: Public Accounts and Audit Select Committee Annual Report 2010/11		For Information
Summary: <p>The Public Accounts and Audit Select Committee (PAASC) carries out the Council's audit function, as well as monitoring how funds are spent across the organisation.</p> <p>PAASC has dedicated the vast majority of its time this year on holding decision-makers to account through commissioning one-off reports and cross-examining Cabinet Members and officers. Members felt that, due to the rapid and wide-reaching changes taking place in local government since May 2010, they needed to scrutinise many different areas of the Council's work rather than focus on a singular issue through an in-depth review. It therefore decided against undertaking a single in-depth review.</p> <p>It has also scrutinised the Council's budget and undertaken its statutory audit monitoring requirements.</p> <p>PAASC has successfully increased its profile during the year, leading to the Audit Commission's Head of Governance and Counter Fraud stating it was: "trailblazing, and setting a great example of how to conduct an open and transparent committee."</p> <p>This report details the activities of PAASC in the 2010/11 municipal year and the outcomes thereof.</p>		
Recommendation: <p>The Assembly is asked to note the PAASC annual report for 2010/11.</p>		
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1. Introduction

- 1.1 In accordance with Section 151 of the Local Government Act 1972, the Council must “make arrangements for the proper administration of its financial affairs”. In addition, the Accounts and Audits Regulations 2003 (Amended 2011) require the delivery of a best practice service. The Council’s statutory auditors rely on Chartered Institute of Public Finance and Accountancy (CIPFA) guidance in determining best practice.
- 1.2 The work of the Public Accounts and Audit Select Committee (PAASC) is somewhat different from the other four (themed) Select Committees. PAASC is responsible for carrying out a number of statutory audit monitoring functions, as well as taking overall responsibility for finance, audit, performance, and governance scrutiny.

2. Membership

- 2.1 The membership of the committee for the 2010/11 municipal year was:

Councillor T Saeed	(Lead Member)
Councillor A Jamu	(Deputy Lead Member)
Councillor J Ogungbose	(Lead Member, Living and Working SC)
Councillor L Rice	(Lead Member, Children’s Services SC)
Councillor D Rodwell	(Lead Member, Safer and Stronger Community SC)
Councillor D Twomey	(Lead Member, Health and Adult Services SC)

The committee membership, aside from the Lead Member and Deputy Lead Member, is comprised of the Lead Members of the four themed select committees - as PAASC is the overarching committee in the scrutiny structure.

All were newly elected to the Council in May 2010.

- 2.2 PAASC has an Independent Adviser who provides valuable support to the committee. The Independent Adviser continues to be Mr Bill Roots who served as Chief Executive and Director of Finance at Westminster City Council between 1994 and 2000. He is also a member of CIPFA. PAASC is very grateful for his invaluable support and guidance.
- 2.3 Tracie Evans, Corporate Director of Finance and Resources, was the “champion” for this committee in the 2010/11 municipal year.

Jonathan Bunt, Divisional Director Finance, led on delivering many of the finance reports to PAASC throughout this municipal year.

Winston Brown, Legal Partner and Deputy Monitoring Officer, was responsible for leading on the delivery of many of the governance items and also offered legal and governance advice to PAASC.

Sandy Hamberger, Divisional Director Assurance and Risk, led all the audit and risk items which were presented to PAASC.

Christopher Owens, Democratic Services Officer, managed PAASC on behalf of the Members and led on delivering the scrutiny and training elements of the

Committee's work. He advised PAASC on process and constitutional and governance issues.

Other Councillors and officers were asked to present reports on specific items during the year, these included:

- Councillor C Geddes, Cabinet Member for Finance, Revenues & Benefits
- Councillor P Waker , Cabinet Member for Housing
- Councillor J White, Cabinet Member for Customer Services & Human Resources

- David Woods, [former] Acting Chief Executive
- Anne Bristow, Corporate Director of Adult and Community Services
- Darren Henaghan, Corporate Director of Customer Services
- Katherine Maddock-Lyon, Divisional Director for ICT and Transformation
- Cheryl King-McDowell, [former] Interim Divisional Director for Policy and Performance
- Sue Lees, Divisional Director of Assets and Commercial Services
- John Hooton, [former] Strategic Financial Controller
- Adrian Molloy, Group Manager HR Service Centre
- Annette Cardy, Group Manager Revenues and Benefits
- Garry Gerrish, Audit Commission
- Jon Hayes, District Auditor, Audit Commission

2.4 Members are extremely thankful to all officers, both internal and external, for their support, guidance and professionalism throughout the year.

3. Meetings & Time Allocation

3.1 The Committee met 11 times between 22 June 2010 and 27 April 2011 spending over 22 hours formally convened.

3.2 PAASC's work can be divided into the following broad themes:

- Training (See section 4 of this report for detail)
- Scrutiny (See section 5 of this report for detail)
- Audit and Risk (See section 6 of this report for detail)
- External Audit (See section 7 of this report for detail)
- Finance (See section 8 of this report for detail)
- Governance (See section 9 of this report for detail)

3.3 PAASC considered **68** substantive items. The following chart is a breakdown of how the committee divided its time.



Total = 68 items

More detail about specific items PAASC considered are found in the below paragraphs.

4. Training

- 4.1 Nine training items were delivered in the 2010/11 municipal year. This constitutes 13.2% of the Committee's time.
- 4.2 PAASC has broad Terms of Reference covering complex topics. Fittingly, a comprehensive training programme was put in place. The first formal meeting saw PAASC receive "introductory" training on governance, finance, audit, scrutiny, Councillor Call for Action, "call-ins", and legal services (including the role of the Monitoring Officer). The committee later received introductory training on external audit and the Council's Partnership arrangements. All this training was delivered by senior officers.
- 4.3 PAASC invited the Member Development Officer to a formal meeting to discuss PAASC training arrangements and the broader scrutiny training. Councillors asserted that, to feel more confident in their role, they would like to observe other scrutiny and/or audit functions at borough, pan-London, and the national levels of government – as detailed in sections 4.4 – 4.6 below.
- 4.4 **Mayor's Question Time**
 - 4.4.1 On 13 October 2010 PAASC hosted a training event to which all councillors were invited. The event consisted of officer led training on the Greater London Authority (GLA) and the role of the Mayor of London. Councillors then observed the Mayor's Question Time event to see how London Assembly members cross-examine the Mayor. A discussion then followed on how these techniques can be applied within Barking and Dagenham. To reduce costs this event was streamed live through the internet to Barking Town Hall – rather than travelling to City Hall. The event was described as an "excellent learning process" illustrating "different techniques and styles of questioning" by one of the councillors in attendance.

4.5 Islington's Audit Committee

4.5.1 On 27 January 2011 members of PAASC travelled to Islington Town Hall to observe a formal meeting of its Audit Committee. PAASC keenly observed the high level of public engagement in Islington and the alternative approach to committee structures.

4.6 House of Commons

4.6.1 Officers are arranging for the 2011/12 PAASC to visit the Public Accounts Committee at the House of Commons to observe scrutiny and cross-examination in action at a national level.

4.7 Other Training

4.7.1 PAASC received the following additional training:

- Protecting the Public Purse – a detailed presentation from the Divisional Director Assurance and Risk Management on reducing fraud in the public sector.
- CIPFA Guide to Local Government Finance – led by the Democratic Services Officer.
- Fraud Against Councils in England – PAASC invited the Audit Commission's Head of Governance and Counter Fraud to a meeting to deliver a pilot, tailored presentation. PAASC also invited councillors and officers from the London Borough of Waltham Forest (see section 7.6 for more information).

4.7.2 Additional training materials – in the form of briefing notes and various reports – were presented throughout the municipal year.

5. Scrutiny

5.1 Fourteen scrutiny items were considered in the 2010/11 municipal year. This constitutes 20.6% of the Committee's time.

5.2 PAASC is a combined committee. It undertakes the Council's Audit Committee activity and, also, its Public Accounts Select Committee function. The latter is considered part of the scrutiny structure. Some of the scrutiny work undertaken is detailed below:

5.3 Data Breach Incident

5.3.1 A report was presented which outlined the detailed investigation which resulted from a hacking attempt on one of the Council's computer servers in February 2010. The investigation was comprehensive and concluded that the likelihood that data was lost was very low. PAASC was satisfied with the Council's response to the incident.

5.4 Skills Centre Cabinet Referral

5.4.1 PAASC accepted a Cabinet referral related to the Skills Centre which is to be constructed in Barking Town Centre. Cabinet had raised concerns at the perceived lack of councillor involvement in the decision-making process. Officers were instructed to write a detailed report into the topic and for the relevant officers to

attend a meeting to be cross-examined. PAASC concluded that officers were compliant with the correct procedures and that councillors were correctly and adequately consulted. These conclusions were reported back to the Cabinet Member for Finance, Revenues and Benefits.

5.5 Housing Maintenance

- 5.5.1 PAASC raised concerns at the Enterprise housing maintenance contract and requested that the Corporate Director for Customer Services and the Cabinet Member for Housing attend a meeting to be cross-examined. The Committee was pleased that the cost of the contract was being managed down (saving £3million in the past few years) and were assured that good progress is being made in this area. PAASC recommended that, when the contract is renewed, break clauses are added and that any new contracts should be closely monitored by the Council.

5.6 Corporate Complaints

- 5.6.1 Members expressed concerns at the number of corporate complaints which reach "stage three". The Cabinet Member for Housing was invited to a meeting to discuss the issue as it transpired that he was already investigating the same issue. The Cabinet Member outlined his early conclusions and offered to return when he had finalised his report. The Committee urges the 2011/12 PAASC to continue to monitor this area in the next municipal year.

5.7 Debt Write-Offs in Housing Services

- 5.7.1 Members raised concerns that a large proportion of the debt write-offs the Council makes come from Housing Services. PAASC requested that the Corporate Director of Customer Services write a report and attend a meeting to be cross-examined on the issue. As a result of this scrutiny investigation, the Corporate Director of Customer Services and the Corporate Director of Finance and Resources are working together to ensure that the Council's debt processes are reviewed, debt budgets are realistic and achievable, and debt collection rates are improved.

5.8 Council Contracts

- 5.8.1 During the course of this municipal year the Committee has received several reports on the Council's contract management policies.

Council Contracts

PAASC received a general report, on 4 August 2010, which outlined the Council's contract management system. Members were concerned by the report and wrote to the Acting Chief Executive requesting that he, and the Corporate Management Team (CMT), attend a meeting to discuss the issue further.

Council Contracts – Update

The Acting Chief Executive and other members of CMT attended the 28 October 2010 meeting. PAASC was assured that contract management is now centralised (in the Commercial Services Unit) and further changes would be seen as Procurement moves to become a part of the Joint Venture. The Acting Chief Executive affirmed that robust practices are now in place

and compliance is improving. Members were pleased that the Council is on the right trajectory and that its concerns had, or were, being addressed.

Agency Staff Managed Vendor Service (Matrix Contract)

PAASC received two separate reports from Human Resources (HR) concerning this specific contract as the committee was keen to ensure that the use of temporary staff was kept to a minimum. The second report detailed that the overall number of temporary/interim staff employed has reduced significantly. PAASC affirmed that they would like the use of temporary/interim staff to be kept to a minimum and it urges the 2011/12 PAASC to continue to monitor this issue.

6. Audit and Risk

- 6.1 Fourteen audit and risk items were considered in the 2010/11 municipal year. This constitutes 20.6% of the Committee's time.
- 6.2 The Committee was pleased to note that the Internal Audit service has been rated with "full assurance" by an external peer review (which was undertaken in 2010/11). It noted that the Audit Commission triennial review (in August 2009) gave a "substantial assurance" rating.
- 6.3 PAASC's terms of reference and the Financial Rules (both outlined in the Council Constitution) stipulate that it should receive a broad range of information from the Council's own auditors, including:
- An annual audit report;
 - Summary of audit work (both actual and proposed);
 - Risk assurance; and,
 - Agreed recommendations updates.

PAASC has undertaken this work, highlights of which are detailed below:

6.4 Audit Plan 2010/2011 and Audit Plan 2011/12

- 6.4.1 The Audit Plan 2010/11 was presented to the 2009/10 PAASC for approval. It was presented, also, to the 2010/11 PAASC.
- 6.4.2 The Divisional Director Assurance and Risk Management outlined the proposed activity for 2011/12 to PAASC on 16 March 2011. Members were pleased to note the extensive consultation that has been undertaken and that the Audit Plan is risk based. It is satisfied that the department is functioning well. Items which are not audited within a five year period and the level of risk these items pose were previously highlighted as a concern and the report addressed this. PAASC was satisfied that the audit assessment was adequate.
- 6.4.3 A governance audit was a key audit in the Audit Plan 2010/11. The audit was finalised in February 2011 and recommended that the positive steps in risk management arrangements be reflected in the June 2011 Annual Governance Statement.

6.5 Internal Audit Composite Report – Outturn 2009/10

- 6.5.1 This report included the statutory Divisional Director Assurance and Risk Management's opinion on the internal control environment for 2009/10. It concluded that the Council's control framework is "sound" and that the core financial systems continue to operate "effectively". There were no significant cases of fraud in 2009/10.
- 6.5.2 The 2010/11 version of this report is scheduled to be presented to the 29 June 2011 meeting, which will be in the new municipal year.

6.6 Internal Audit Composite Reports

6.6.1 Quarterly Internal Audit Composite Reports were presented by the Divisional Director Assurance and Risk Management which assisted PAASC in undertaking its governance and risk scrutiny function. The reports covered a broad area of the Council's work including:

- Summaries of Internal Audit work undertaken;
- Summaries of Corporate Fraud Investigations and whistle-blowing work undertaken;
- Current and future key issues;
- [the] value for money of the Internal Audit service;
- Progress of audit recommendations;
- Reasons for agreed slippage of high risk recommendations;
- Outcomes from tenancy audit;
- Outcomes from housing benefit investigations;
- Refresh of key Anti-Fraud and Audit Policies and Strategies; and,
- Divisional Director Assurance opinions.

6.7 Corporate Risk Register

- 6.7.1 PAASC received quarterly Corporate Risk Register (CRR) reports from the Divisional Director Assurance and Risk Management enabling Members to monitor the corporate risks and to challenge officers accordingly. The Committee has robustly challenged the development and implementation of corporate risk information.
- 6.7.2 In response to concerns raised by PAASC in September 2009, CMT ensured that the Council's management of risk had been significantly strengthened. This included a full review and the implementation of a new risk management framework.

In January 2010, CMT, the Independent Adviser, and the Divisional Director Assurance and Risk Management held a workshop to review and categorise the big corporate risk areas. These were reported to, and agreed by, PAASC and informed the 2010/11 Audit Plan – indicating areas to focus resources.

A Corporate Risk Board comprising all of the Divisional Directors was established with a remit to embed the use of risk management into the organisation.

The Council now has a Corporate Risk Register that is received by PAASC quarterly from CMT. The first annual review was presented to PAASC in April 2011 and will inform the Annual Governance Statement.

- 6.7.3 PAASC directed Risk Management to undertake a comparison exercise to assess how LBBD compares to other London boroughs when assessing and managing corporate risks. The Committee noted how the comparison work cuts across all departments and helps give the committee a broad but insightful overview of risk. PAASC was extremely satisfied with the standard to which this comparison exercise was completed and with the Council's current approach.
- 6.7.4 PAASC has challenged individual corporate risk levels. For example, at the 29 September meeting the Committee noted that the corporate risk level for "National Presence / Lobbying" was green and requested more detail on the "Non-commercial partnerships" risk, as summarised below:

National Presence / Lobbying

PAASC expressed concerns about the level of the rating and requested a briefing about the reasons for that assessment. The Acting Head of Strategy and Performance attended the 2 February 2011 meeting to reassure Members that the risk had been reviewed and was now more accurately rated amber. Furthermore, the officer gave reassurances that detailed work is underway in this area, namely: the development of an external engagement strategy, officers would be "bidding" for extra finance at every opportunity, and more would be done to promote the London 2012 Olympiad. PAASC was satisfied that the Council had improved in this area.

Non-Commercial Partnerships

PAASC was concerned that Internal Audit had given this area a "limited assurance" – as the Council was not maintaining an up-to-date register of all partnerships. The Committee was satisfied that the situation had evolved (due to central government changes) and there was now no longer a requirement for a register to be maintained. However, to ensure good governance, the Council intends to maintain a register. PAASC was satisfied with officers' work in this area.

6.8 Improving the Schools Controls Environment

- 6.8.1 The 2009/10 PAASC received a report on the findings of investigations into the high number of "limited assurance" school reports issued in 2008/09. This year, the Committee followed-up on this area of concern and directed the Divisional Director Assurance and Risk Management to prepare a report on the topic. Members were confident that a proactive approach had been taken since the initial "limited assurances" and was assured that the procedures in place were good and that officers were working to improve compliance. For example, it was agreed that, from 2011/12, finance training would be included in the training which is undertaken by all Governors. The Committee is pleased to note that the 2010/11 schools internal controls assurance levels show an improvement on previous years. At the time of writing, 50% of schools audited have now received "substantial assurance" – compared to only 25% reported in 2009/10. Moving forward, PAASC would like to see the majority of schools audited receiving a "substantial assurance". PAASC has been advised that the Government is introducing a revised auditing standard for

schools – replacing the Financial Management Standard in Schools, which ceased in November 2010. PAASC urges the 2011/12 PAASC to review progress in this area.

6.9 Blue Badge Fraud

6.9.1 PAASC requested a detailed report on the fraudulent use of blue badges within the borough. Members were satisfied that figures for blue badge fraud within the borough were low, but it would like the outcomes from fraud cases to be better publicised and for the policy of non-prosecution to be reversed by Cabinet. PAASC is pleased to note that the Government has announced new measures to tackle blue badge abuse. PAASC urges the 2011/12 Committee to continue to monitor work in this area.

6.10 Whistle-blowing

6.10.1 On 4 August 2010 Members were informed that the Council's whistle-blowing policy is reviewed by the Standards Committee but information would be brought to PAASC for comment. Upon reviewing the latest available data, PAASC instructed the Divisional Director Assurance and Risk Management that they would like to know the number of employees who have whistle-blown in the past two years and how many of these officers were still in their posts. Furthermore, they wanted to know under what circumstances an employee – who had previously whistle-blown – had left the Council if they had done so. PAASC was subsequently briefed that there had been 29 whistle-blowing cases in the past two years and that, of these, 19 officers who had whistle-blown subsequently left the Council. Anti-fraud officers found no evidence that any of the 19 had been “forced” to leave because of their whistle-blowing actions. PAASC was satisfied with the information presented by officers.

PAASC is aware of the Parking Services whistle-blowing incident which happened early in the municipal year. Due to an ongoing internal investigation by officers PAASC has not scrutinised this issue. PAASC urges the 2011/12 PAASC to scrutinise this area to ensure lessons have been learnt.

6.11 Comments of the Divisional Director Assurance and Risk Management

6.11.1 “The profile and effectiveness of PAASC in 2010/11 has strengthened the governance risk management and internal control environment. A Key outcome is enhanced transparency for the public.”
- Sandy Hamberger, Divisional Director Assurance and Risk

7. External Audit

7.1 Nine external audit items were considered in the 2010/11 municipal year. This constitutes 13.2% of the Committee's time.

7.2 PAASC's terms of reference require it to consider the external auditor's Annual Letter and other relevant reports.

7.3 PAASC's external auditor is the Audit Commission. It has a duty to assess the quality of services. This is achieved through assessing the accounts, grants claims,

pension fund, data quality, local government electors, and legality. The highlights of this work are detailed below:

7.4 Annual Governance Report

7.4.1 On 28 October 2010 PAASC received the Annual Governance Statement from the Audit Commission. It summarised the findings from the 2009/10 audit of the Statement of Accounts. The Committee was satisfied with the “unqualified opinion” of the financial statements that was granted by the Audit Commission. Officers were requested to ensure that the next external audit is completed in a timely manner.

7.5 Certification of Claims and Returns – Annual Report

7.5.1 Funding from Government grant-paying departments is an important income stream for the Council. In 2009/10 the Audit Commission certified 13 claims with a total auditable value of £215million. Nine of the 13 were amended for errors and five had qualification letters sent to the grant-paying bodies.

7.6 Fraud against Councils in England

7.6.1 At the request of the Divisional Director of Assurance and Risk Management, PAASC received a report from the Audit Commission’s Head of Governance and Counter Fraud. This report was a pilot, tailored briefing note positioning the LBBB fraud survey results against those in the recent Protecting the Public Purse report. The Head of Governance and Counter Fraud was very complimentary of the Council calling it:

“Trailblazing, and setting a great example for how to conduct an open and transparent committee.”

He was also extremely complimentary of the Council’s work. Some of his findings are displayed below:

Issue:	Audit Commission’s Assessment of LBBB:
Tackling benefit fraud	“impressive” “officers should be rightly proud of their efforts”
Blue badge fraud	“[LBBB is doing] really well”

PAASC requested, and subsequently received, a self assessment against best practice checklists both from the national and locally tailored Protecting the Public Purse reports.

- 7.6.2 The report highlighted the risks associated with Personalisation Budgets (also known as Personal Budgets) – when money is allocated to those receiving care on the assumption that they will spend their care money allocation on what they themselves feel they need most.

PAASC shares in the nationally recognised concerns that fraud perpetrated by the public (using Personalisation Budgets money) would have an immediate impact on the vulnerable but detection will prove very difficult due to the nature of the system – where penny-by-penny accounting is discouraged. PAASC is further concerned that putting controls in place to minimise this risk will be difficult.

Overall, PAASC feels that the move to increase the Personalisation Budgets scheme will increase the risk of fraudulent use of public money. It asks officers, especially those in Finance and Adult and Community Services departments, to work closely together to “protect the public purse” and it also urges the 2011/12 PAASC to monitor the situation closely and recommends it receives the summary recommendations from the 2010/11 audit of Personalisation Budgets, when it becomes available.

The Audit Commission's Head of Governance and Counter Fraud agreed with the concerns raised by PAASC and agreed he would report them back to the national Audit Commission.

- 7.7 PAASC also received reports relating to the external auditors fees and opinion plans.

- 7.8 PAASC is thankful for the work of the external auditors and is pleased to see the fees for their work reducing.

8. Finance

- 8.1 Seventeen finance items were considered in the 2010/11 municipal year. This constitutes 25% of the Committee's time.

- 8.2 PAASC's main role in this area is to assess the Council's Statement of Accounts and its budget. Due to the national public sector financial landscape, PAASC has dedicated a lot of time to this important topic and has considered the reports it has received carefully. Some of the highlights are listed below:

8.3 Statement of Accounts 2009/10

- 8.3.1 On 7 July 2010 PAASC considered the draft Statement of Accounts 2009/10. The following areas were scrutinised:

- Accounting policies;
- Income and expenditure account;
- Capital expenditure and financing;
- Balance sheet;
- Remuneration of senior staff;
- Movement in reserves
- Housing Revenue Accounts (HRA); and,

- [the] Pension fund.

PAASC directed officers to provide more detail on certain areas of the accounts, including an up-to-date statement on the remuneration of senior staff. This was undertaken by officers and presented to the Committee on 28 October 2010. PAASC thoroughly reviewed this information and is satisfied with the Council's actions in this area. However, PAASC remains concerned that, due to ongoing budget constraints, senior staff are being asked to take on extra responsibility which could impact on their current workloads and remuneration. If appropriate, PAASC would like to see junior staff being given these extra responsibilities to enable them to gain wider experience and to develop their skills and career.

- 8.3.2 On 28 October 2010 members scrutinised the final Statement of Accounts 2009/10 and approved the revisions. These were subsequently approved by the Audit Commission with an "unqualified opinion".
- 8.3.3 While PAASC was pleased that the Council's Statement of Accounts 2009/10 was sound and approved by the Audit Commission, it was concerned that there were several delays which resulted in the 30 September deadline for completion being missed.

As a Consequence, officers were instructed to present a strategy to ensure that the 2010/11 Statement of Accounts is completed on time and to the required standard. A thorough and frank report on this topic was presented on 2 February 2011. PAASC was pleased to see that areas for improvement had been identified and that a robust, risk monitored project plan had been developed. The Committee requested more detail on the plans so officers presented the proposed timetable for the closure of the 2010/11 Statement of Accounts to its 16 March 2011 meeting.

PAASC remains concerned that, if the deadline is missed again, it puts the Council at risk and could cost the Council money through increased Audit Commission fees. It is also concerned that, if the deadline is missed, the Council could receive negative publicity by being named, publicly and nationally, of its failure to close the 2010/11 accounts on time. However, PAASC is satisfied that officers are working hard to ensure there will not be a delay on the 2010/11 accounts and that they are working in close harmony with Audit Commission colleagues. It requested a further update for the 27 April 2011 meeting and it urges the 2011/12 PAASC to keep a close eye on progress in this area.

- 8.3.4 The Annual Governance Statement, which forms a part of the Statement of Accounts, is discussed in section 9.2 of this report.

8.4 Council Budget

- 8.4.1 Council budgets are decreasing nationwide – in line with central government's desire to reduce the national budget deficit. On 28 October 2010 PAASC received a briefing from the Corporate Director of Finance and Resources on the present situation both nationally and locally in LBB. PAASC was concerned at the level of the proposed cuts (whilst noting that this is beyond the Council's control) and was pleased to see that officers had been preparing for the impending cuts for well over 12 months and that a comprehensive plan had been prepared to minimise disruption and preserve vital Council services.

8.4.2 On 10 November 2010 PAASC became actively involved in the 2011/12 budget setting process. The Cabinet Member for Finance, Revenues and Benefits and the Cabinet Member for Customer Services were invited to the meeting to discuss their spending proposals in the areas which pertain to PAASC's remit (i.e. mainly "back office" areas). PAASC commented on several areas of the budget proposals which were fed back to the whole Cabinet by the two Cabinet members present.

8.4.3 In advance of the budget scrutiny in February, the Committee, at its meeting on 15 December 2010, received a report from the Divisional Director for Finance on the 2011/12 Corporate Budget Update and Medium Term Financial Planning. PAASC directed officers to remain vigilant as regards the Council's reserve budgets – as it noted a £500,000 decrease since it had last reviewed the figures.

8.4.4 On 2 February 2011 PAASC reviewed the wider budget. Specifically:

- The Medium Term Financial Strategy and a two year summary level financial model for the Council;
- The impact of the Comprehensive Spending Review (CSR) and the Local Government Finance settlement;
- Proposed budget options;
- Detailed annual revenue estimates for revised 2010/11 and 2011/12; and,
- The proposed level of Council Tax for 2011/12.

PAASC was particularly concerned at the proposal to cut funding to, and require a relocation of, the Osborne Centre as it is the only centre in the borough which provides services for adults with learning difficulties. The Committee was pleased to note that, since this meeting, that specific savings proposal has been dropped.

PAASC was also concerned at the proposal, within Safeguarding and Rights, to introduce charges for placements which have not been court or police directed.

8.4.5 During previous budget related discussions Members had raised a number of issues with the Corporate Director of Finance and Resources, resulting in the Corporate Director being directed to prepare a report on the budget process for the next financial year and a discussion paper on budget principles. This report was presented to the meeting held on 27 April 2011.

8.5 **Medium Term Financial and Service Planning**

8.5.1 At PAASC's first formal meeting on 22 June 2010 it reviewed the Medium Term Financial and Service Planning. Officers advised of the impending cuts local government would be facing and the in-year savings which were unavoidable. PAASC sought and received assurances from officers that the financial issues of the past few years had been addressed and that, going forward, the Council would and could display strong financial management capabilities.

8.6 **Housing Revenue Account**

8.6.1 At a meeting on 7 July 2010 Members raised a number of concerns with the Housing Revenue Account (HRA) and directed officers to investigate the issue and report back. This was undertaken on 28 October 2011. PAASC was concerned

with the Decent Homes Standard and the level of reserves although it was reassured that the HRA is being reformed. PAASC felt that having 11,500 people on the council house waiting list was undesirable and asked officers to do everything possible to address this issue.

8.7 Fees and Charges Arrangements

8.7.1 The Corporate Director of Finance and Resources presented a report regarding LBBD's fees and charges arrangements. PAASC disagreed with the Council's (then) policy of freezing the fees and charges, which usually rise by 1%, and directed the Corporate Director to report back to Cabinet that it was of the opinion that the fees and charges should rise by 1% on 4 January 2011 when Value Added Tax (VAT) was due to increase by 2.5% (to 20%). As a result of this work, the Corporate Director of Finance and Resources has been asked to review all of the Council's fees and charges with a view to ensure they cover the whole cost of the service to which they apply. This complex piece of work will be fed into the 2012/13 Budget.

8.8 Bad Debt

8.8.1 PAASC decided to investigate LBBD's bad debts and directed that a report should be prepared for consideration. This was presented on 17 November 2010 by the Divisional Director of Finance.

PAASC was dissatisfied to learn that the amount owed by third parties had risen sharply from £1,000,000 (when it had reviewed the figures in June 2010) to £2,600,000 by November of the same year. Officers were instructed to try and improve this situation through working with Elevate to improve debt processes and collection rates. Debt budgets have also been reviewed to ensure this can be achieved. PAASC urges the 2011/12 PAASC to monitor the bad debt levels.

PAASC noted that much of the debt derives from Housing Services and, as such, requested that the Corporate Director of Customer Services attend a meeting and produce a report which specifically addresses this issue (see section 5.7 of this report).

The Committee directed officers to undertake an exercise which aims to answer: "If the Council had taken those committing benefits fraud to court in the last three years, would the Council have benefited financially?" It is anticipated that this will be reported to the 2011/12 PAASC.

8.9 Review of Financial Regulations

8.9.1 Part of the PAASC's terms of reference state that it should "[maintain] an overview of the Council's Constitution in respect of the financial regulatory framework". PAASC undertook this on 15 December 2010 when it received a report from the Divisional Director for Finance and Resources.

The financial regulations are wide-ranging and set out procedures and good practice in respect of all aspects of the finance and audit agenda, including: the budget setting and monitoring, the closure of accounts, treasury management,

fraud, insurance, and the control of resources. The regulations were being reviewed by officers who sought Members' input.

Officers agreed to redraft the proposals to incorporate procurement policies and contracts, as requested by PAASC.

PAASC was pleased to learn that the Corporate Director of Finance and Resources has a duty to provide a report to every member where it appears that the expenditure incurred, or likely to be incurred, in a financial year exceeds resources available. Officers were directed to add timescales for this into the framework.

PAASC also directed that it should be included in the formal budget setting arrangements (as detailed in paragraph 3 of Section B of the financial regulations).

Finally, PAASC directed officers to investigate the feasibility of providing action plans to Cabinet Members when there has been an overspend of £100,000 or more.

8.10 International Financial Reporting Standards (IFRS)

8.10.1 In the 2011/12 financial year the Council will be changing to a new financial reporting standard called the International Financial Reporting Standard (IFRS). This poses a certain level of risk to the Council and, consequently, PAASC asked for a report – which was presented on 16 March 2011.

PAASC was pleased to note that a clear action plan of the work required by officers has been prepared and that additional staff resources have been reallocated to the project to ensure full compliance will be achieved.

The Committee acknowledges that the closure of the Council's accounts is a complex area (see section 8.3 of this report) and that it now has to accommodate the added requirements of IFRS compliance. PAASC is pleased to see that steps have been taken to convert earlier accounts into IFRS as part of a transitory phase. The Committee is confident that officers are adequately prepared for this change and urge the 2011/12 PAASC to monitor the situation closely.

8.10.2 The Committee recommends that the 2011/12 PAASC asks for detailed training on IFRS early in the municipal year.

8.11 Comments of the Corporate Director of Finance and Resources

8.11.1 "PAASC has been an effective audit and scrutiny committee and enhances the Council's control environment. It is pleasing to note the external auditor's view of the Committee. It is vital that the Committee is able to continue with the help of an independent adviser who adds experience and robustness to the Committee's agenda."

- Tracie Evans, Corporate Director of Finance and Resources

9. Governance

9.1 Five governance items were considered in the 2010/11 municipal year. This constitutes 7.4% of the Committee's time.

9.2 Annual Governance Statement

- 9.2.1 In line with statutory requirements, all local authorities are required to publish an Annual Governance Statement. The purpose of the Statement is to produce an evidence based assurance that the organisation is operating in all its activities within a robust governance framework

PAASC's terms of reference state that it should "[oversee] the production of the [Council's] Annual Governance Statement which will form part of the annual Statement of Accounts". PAASC undertook this on 22 June 2010 when it received the statement from the Council's Legal Partner and Deputy Monitoring Officer.

PAASC assessed how robust the Council's governance framework was while considering the report. It was concerned with the "Significant Governance Issues" – areas which require further strengthening – which, at the time, included:

- Risk management;
- Project management;
- Data protection;
- Whistle blowing;
- Partnership working; and,
- Staff job descriptions.

If the 2011/12 PAASC decided to undertake an in-depth review, the above six bullet-points could potentially benefit from further scrutiny.

PAASC was satisfied with the draft and noted that it is incorporated into the wider Statement of Accounts (detailed in section 8.3).

9.3 Governance Composite Reports

- 9.3.1 PAASC received quarterly updates from the Legal Partner which assessed different areas of the Council's governance arrangements. The reports covered such areas as:

- Data protection;
- Freedom of information;
- Corporate complaints; and,
- Members' casework.

Data Protection

Concerns were raised that, during a corporate compliance audit, an initial assessment had identified that 54% of services felt that they were not compliant with the Data Protection Act (1998)(DPA). For various reasons this could not be re-addressed during the 2010/11 municipal year. Therefore, the 2011/12 PAASC is urged to investigate this issue.

Corporate Complaints

Members raised concerns that 46% of complaints which reach "stage 3" were upheld when investigated, while a further 40% were partly agreed.

PAASC felt that this was unacceptably high and felt this should be further investigated. The Cabinet Member for Housing, who was separately investigating this issue, was invited to the meeting on 10 November 2010 to discuss this. Members decided to await the outcomes of the Cabinet Member's investigation and, therefore, they urge the 2011/12 PAASC to investigate this issue further. This issue is also addressed in section 6.6 of this report.

Members' Casework

PAASC felt that Members' casework should be kept separate from the Corporate Complaints structure. PAASC also felt that a lot of their casework arises due to a lack of a response, or an inadequate response, from the Council when the constituent first tries to seek redress. PAASC urges all 51 councillors to ensure their casework is administered in the prescribed way and that all Council officers should respond promptly to Members' casework inquiries.

9.4 Local Strategic Partnership

- 9.4.1 The Committee noted that the governance of the Partnership is currently being reviewed and, as such, PAASC was included in the Governance Framework document consultation.

Concern was expressed that the Council appears to dominate the partnership and currently meets a sizable portion of the overall funding. PAASC feels that this is not within the spirit of true partnership working. PAASC would also like the idea of having an independent chair of the PSB to be considered. The new Chief Executive has been commissioned to look at the Local Strategic Partnership (LSP) with a view to recommending appropriate changes.

9.5 Joint Venture Governance

- 9.5.1 PAASC requested details on the governance arrangements of the Council's new strategic partner as it moved forward with the Joint Venture. This was presented to the 28 October 2010 meeting.

PAASC requested that the Council's scrutiny function be extended to include the Joint Venture's governance arrangements. The Committee advised that the current governance arrangements include a Company Board ("The Elevate Board") where Members sit as Directors. There is also a Strategic Partner Board which meets to influence the direction of Elevate. Performance data arising from the Elevate contract is subsumed into the Council's performance process. It is therefore felt that this is enough scrutiny over Elevate. There is, however, time put aside in the Internal Audit Plan to ensure that the governance system surrounding Elevate is robust and this will be presented to the Committee. PAASC is satisfied with these arrangements.

9.6 Comments from the Legal Partner and Deputy Monitoring Officer

- 9.6.1 "PAASC has taken on the role of the former Audit Committee and combined a scrutiny element. It is to be noted that there is no legislative requirement to have a separate audit committee, but good practice recommends local authorities to have a

committee charged with reviewing audit related activities in the Council. PAASC fulfils the audit and scrutiny function as outlined in this report.”
- Winston Brown, Legal Partner and Deputy Monitoring Officer

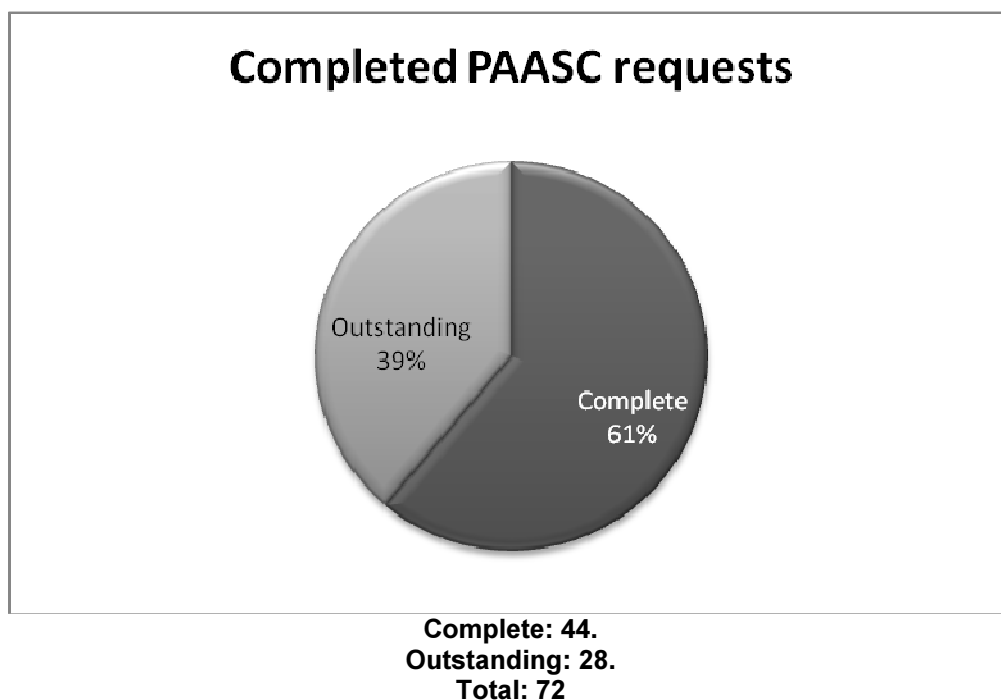
10. Committee Requests and Outstanding Items

- 10.1 As of the conclusion of the PAASC meeting on 16 March 2011, Members had made **75** requests to officers. By 27 April 2011 **44** of these should be complete. This represents 61%. These figures do not include any requests arising from the final meeting this municipal year – on 27 April 2011.

PAASC urges that the 2011/12 PAASC take the small number of outstanding items (many of which are referenced throughout this report) and incorporate them into their work programme to ensure scrutiny of these important areas is not missed.

Many of the “incomplete” items were requested by PAASC at its meetings of 2 February 2011 and 16 March 2011 (late in the municipal year) and, as such, officers are still working on completing them. They will need to be carried over into the new municipal year.

- 10.2 PAASC formally assessed its Outstanding Items List on 16 March 2011 and was satisfied with the progress made against completing it. A chart displaying the progress is shown below:



11. Key Outcomes and Conclusions

- 11.1 During the 2010/11 municipal year PAASC has considered a great number of topics covering a wide breadth of the Council’s activities. PAASC is confident it has appropriately challenged officers on these topics to achieve tangible outcomes.

PAASC's foremost thought while it has been undertaking its work has been the residents and workers of Barking and Dagenham. It takes its duty to ensure their money is being spent appropriately seriously, and PAASC is confident it has helped shape the Council's policies to help improve the lives of its residents and workers.

11.2 Some of PAASC's main outcomes are:

- The Council's contract management has greatly improved. Contract management is now handled centrally and effective monitoring is being put in place (see section 5.8 of this report for more information).
- The Council now has a comprehensive Corporate Risk Register in place to monitor where risks to the Council could come from. Action plans are in place to effectively manage these risks. PAASC has monitored the CRR closely and is confident that officers are now rating risks prudently (see section 6.6 of this report for more information).
- PAASC was deemed by the Audit Commission's Head of Governance and Counter Fraud to be "trailblazing" in its approach to its work and commended LBBD for setting a good example for how to conduct an open and transparent committee (see section 7.6 of this report for more information).
- Members and officers both recognise that this Council has some historical issues regarding having its Statement of Accounts signed-off by the Audit Commission in a timely manner. PAASC has affirmed that these delays should not be repeated. Consequently, officers have put a full plan in place to ensure that (a) the transition to the new International Financial Reporting Standards system is smooth and teething-problem free, and (b) that the accounts will be signed-off within the stipulated deadlines (see section 8.3 of this report for more detail).
- PAASC has effectively scrutinised the Council's budget and several changes have been made as a result (detailed in section 8.4 and 8.7 of the report).
- PAASC has reviewed the Council's financial regulations and has requested several alterations which have been enacted by officers. These changes (detailed in section 8.9 of this report) have strengthened the Council's governance.
- The profile of risk management has been strengthened by the work undertaken by PAASC and transparency has improved as a result.

11.3 Upon reflection of all the reports PAASC has received this year, it is clear that the Council has sound procedures in place which adhere to good governance, sound financial management, and comply with nationally recognised best practice. However, compliance with these procedures remains an issue of concern. Moving forward, PAASC would like officers to redouble their efforts to ensure that compliance with Council procedures increases across the whole organisation.

12. Background Papers Used In the Preparation of the Report

- 12.1 Public Accounts and Audit Select Committee minutes 2010-2011
- Public Accounts and Audit Select Committee agendas 2010-11
- Public Accounts and Audit Select Committee Work Programme 2010-11
- Public Accounts and Audit Select Committee Outstanding Items List 2010-11
- Council Constitution