

AUDIT COMMITTEE

21st September 2006

Present: Councillor I Brown (Chair)
Councillors Brodhurst, Derbyshire and Razzaq.

Also present Councillor Sharpe – Portfolio Holder for Finance

Debbie Hanson District Auditor
Christine Connelly Audit Commission
Jo Wasmuth Audit Commission

AUD9 **APOLOGIES FOR ABSENCE/COMMITTEE MEMBERSHIP**
06/07

No apologies were received.

AUD10 **DISCLOSURE OF INTERESTS**
06/07

There were no disclosures of interests.

AUD11 **MINUTES**
06/07

The minutes of the meeting held on 26th June 2006 were submitted and signed.

AUD12 **ANNUAL REPORT (ISA260)**
06/07

Debbie Hanson, District Auditor, presented the Annual Governance Report. She explained that the purpose of report was to review and report on the Authority's financial statements and whether it had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The District Auditor anticipated being able to give unqualified opinions on these issues by 30 September 2006.

A copy of the audited Statement of Accounts for 2005/06 and the action plan drawn up in response to the recommendations made by the Audit Commission in their report were circulated at the meeting.

The Chair reminded the Committee that the timetable had been brought forward by one month this year and all the work had had to be carried out in a much tighter timeframe.

Members were then invited to ask questions on specific issues raised in the report.

In response to a Member question, the Principal Accountant confirmed that the Statement of Accounts circulated reflected the changes advised by the Auditor;

there were just a few small amendments still to be made in respect of page numbering.

In response to a further question from the Member, the District Auditor confirmed that the results of their inspection work and the separate grant claims' certificate referred to in paragraph 7 would also be made available to this committee.

The Head of Finance informed the Committee that the outstanding issues in respect of the Financial Statements (paragraph 9) had now been resolved.

A Member asked who the assurance needed to be given to in respect of Housing Benefit (paragraph 9). The District Auditor responded that it was necessary for the Audit Commission to be able to substantiate the claim by confirming that the amounts were correct.

The Committee considered Table 1 – adjusted misstatements in the financial statements - (Page 9). The District Auditor explained that the figures had changed since the report was published and would be re-issued.

The Chair referred to deferred credits – increase and inclusion of S106 monies - and asked whether officers were now fully aware of exactly how much money was held. The Head of Finance responded that a lot of detailed work had been done with the Planning Department and a schedule of schemes had been drawn up.

A Member added that he was concerned that S106 money sat in balances and was not spent on the specific issues for which it was originally intended. The Head of Finance advised that a S106 officer had now been appointed to look at how these monies were utilised. The Portfolio Holder added that S106 money was primarily for play and open spaces and highways improvements. In both cases there was a programme which was drawn up in a transparent and accountable way. The Joint Highways Committee considered highways improvements and play and open spaces formed part of the Green Spaces Strategy being considered by Cabinet on 9th October. It was important to get the best use from the money rather than using it on an ad hoc basis.

The Chair commented on pension liability and reserves and the fact that valuations were not carried out annually and were affected by Stock Market trends. The District Auditor responded that they relied on actuaries for information but that they were also responsible for reviewing the pension fund administered by Herts County Council and were satisfied with the situation.

A Member expressed concern about the misclassifications in respect of debtors and creditors. He sought assurance that these would be recorded correctly in future and asked the Head of Finance how he intended to improve the position.

The Head of Finance referred the Member to the Action Plan circulated at the meeting which commented on specific action to be taken to ensure that the recommendations in the report would be addressed. Lessons had been learnt from the previous year's experience and the situation would improve in future.

The Member asked about the cash and bank details and the fact that the in-hand and overdraft figures were the same. He asked why these could not be rolled together into one account.

The Principal Accountant explained that it was to do with the way the accounts were presented and that all accounts were swept into one balance at the end of the day. The Head of Finance referred the Member to Treasury Management arrangements and confirmed that money was suitably invested to earn interest. The Chair added that a session on Treasury Management would be useful for members of the committee.

The Portfolio Holder commented that whilst Table 1 looked alarming, the fact the District Auditor had indicated that the accounts were likely to be unqualified meant that there was no real cause for concern. He asked the District Auditor for confirmation that the authority was heading in the right direction.

The District Audit's Audit Manager responded that the improvement seen in Watford over the past three years was phenomenal. The accounts were well presented and whilst improvements could still be made there were no major flaws. Relationships between the auditors and officers were good and she looked forward to continued improvement next year.

The Portfolio Holder welcomed her comments and said he would ensure that her comments were passed onto his Cabinet colleagues. There was a commitment from all and a willingness to learn and improve.

A Member referred to the fact that the Housing and Council Benefit claim had not been fully reconciled to the ledger (Paragraph 22). He asked whether, in relation to the total amount of money in these accounts, the un-reconciled amount of £89K was significant. The District Auditor responded that the total figure was somewhere in the region of £20M so the amount was very small. However, it had to be borne in mind that where there was a discrepancy, the lower of the figures had to be claimed. The Audit Manager added that there were problems reconciling two systems which they were working on improving, although the situation was quite complicated.

The Member then asked who would be responsible for signing the Letter of Representation referred to in paragraph 7. The Principal Accountant responded that the letter had been signed by the Finance Director and would also be signed off by the Chair of this Committee. The Head of Finance also referred the Member to the Statement of Responsibilities listed on page 61 of the Statement of Accounts.

The Member went on to comment on the areas for improvement listed under improving value for money and sought assurance that there was enough expertise available in terms of knowledge and understanding of unit costs. The Head of Finance admitted that this was an area which had been of a low priority in the past but that expertise was available and they would be putting greater emphasis on this work in future.

The Member also asked about operational management and whether there was adequate support in this area. The Chair agreed that this was an important

issue as it was sometimes necessary to make crucial decisions, for example, on changing course halfway through a year. The Head of Finance referred to the Budget Monitoring process, which was done each month, and to the Finance Digest which was circulated to key Members. Heads of Service were required to comment on under-spends and over-spends and the position was reported to Cabinet. In terms of detailed information, he added that a lot was gained from performance indicators and if specific information were required for a particular project, this could be obtained.

It was agreed that copies of the Finance Digest should be sent to all members of the Audit Committee.

The Member went on to refer to the fact that there was no annual programme of planned maintenance on all properties (Paragraph 41). He said this could lead to problems for the Council in the future. The Portfolio Holder accepted the Member's concerns and said that this issue was being addressed and progress being made.

The District Auditor explained the remaining pages of the report (pages 15 to end) and responded to a question from the Chair regarding fees. She said there was a national table of fees but the amount had also been discussed with the Finance Director. She asked for her thanks to officers for their help and co-operation throughout the process to be formally placed on record.

The Head of Finance responded by thanking the auditors – particularly Jo Wasmuth – for their hard work in carrying out the audit. He added that if Members wished to see details of the adjustments made following the audit, these could be made available.

RESOLVED

1. that the report and the Committee's comments be noted.
2. that the Chair of the Committee be authorised to sign off the Letter of Representation.

AUD13
06/07

CAPITAL PROGRAMME MONITORING AND DELIVERY

At its meeting on 26th June the Audit Committee received the Statement of Accounts. One of the issues raised related to the under spends in capital expenditure specifically in respect of housing improvements. The Committee had asked the Head of Housing to attend this meeting to explain the position and answer questions.

The Head of Housing explained that the works linked into the Decent Homes Standard (DHS) which all public sector and registered social landlords had to meet by 2010. If the outcome of the ballot on stock transfer was "yes", there would be a defined budget available to spend but if there was a "no" vote all the money would have to be spent on meeting the DHS and the Council would be in deficit by £10M by 2010.

The Asset & Performance Manager introduced the report circulated with the agenda. She also circulated details of the % of the Housing Capital Programme spent in 2005/06 and in 2006/07. The papers contained comments on the under-spends, overspends and delays.

Stock condition surveys had been carried out in 1997 and 2003 which had shown that stock, whilst well maintained, lacked major investment in some areas e.g. bathrooms. Further work was also needed to make way for DHS improvements. Also, whilst 99% of dwellings have some form of central heating some systems need to be upgraded to meet the DHS.

She also informed the Committee that Watford was one of the top 25 authorities for energy efficiency rating which meant they had access to additional funding.

She referred to the obstacles highlighted in the report and added that uncertainty around the Stock Transfer had resulted in them having to hold back on improvement work. However, the fact that technical staff were now back in the Housing Department gave them greater control.

In response to a question from the Chair about the revision of the budget part way through the year, the officer explained that the budget had been set in January and she had revised the budget in May when she had realised the impact of the building services restructure. The work had been handed over but people had left and there was no-one to continue managing some of the projects.

A Member asked about the funding of the installation programme by *Powergen*. The officer responded that companies such as *Powergen*, who made large profits, were required to make contributions towards social housing and Watford had been able to negotiate a very good deal.

The officer went through the 2006/07 figures. She commented that some of the work was dependent on the outcome of the ballot as they did not want to make a start on work which later had to be re-done. Once the result of the ballot was known, an enhanced Asset Management Plan could be drawn up.

The officer added that a five year programme had also been prepared in readiness for a "no" vote based on what would need to be spent up to 2010. In the event of a "yes" vote, work would likely be based on a "whole house" approach rather than a programme of specific work on a number of properties.

The Chair said he welcomed the explanation and thanked the Head of Housing and officer for attending.

RESOLVED

that the reports and the officer's presentation be noted.

AUD14 OMBUDSMAN'S ANNUAL REPORT 2005/2006

06/07

On 21st June 2006 the Council received its annual letter from the Ombudsman regarding his reflections on the complaints dealt with by his office during the financial year 2005/06.

RESOLVED

that the content of the Ombudsman's Report for the Financial Year 2005/06 be noted.

AUD15 INTERNAL AUDIT – PROGRESS REPORT TO AUGUST 2006

06/07

The Committee received a report providing information on the work undertaken by Internal Audit during the period April to August 2006. Details of the work were set out in the appendices and included:

- a) the latest position on individual audits as at 31st August, including cumulative time taken for the year and comparison with the time allocation in annual audit plan.
- b) local performance measures.
- c) The main issues arising from work undertaken during the quarter

The Audit Manager introduced the report. He explained that the report covered work undertaken by Internal Audit during the five months ended 31st August 2006. This progress report would normally cover work undertaken during the preceding quarter but because of the timing of committee meetings, a longer period was covered to ensure that Members received up to date information. The exception to this was Appendix 2 to the report where the normal quarterly return of performance measures was retained to enable comparison with previous periods.

The Audit Manager explained that the progress outlined in Appendix 1 demonstrated a comparatively quieter period. This was largely due to the fact that they had been concentrating on more complex audits so had not carried out as many, and the loss of a senior auditor in the team. He was, however, pleased to report that a job offer had been made and accepted; in the meantime they would continue to use an external supplier.

A Member referred to the payroll overpayments. The Member also raised an issue relating to problems with his own payments which he had taken up with payroll, but was concerned that similar errors could be being duplicated elsewhere.

The Audit Manager explained that payroll was reconciled on a monthly basis and that errors identified were normally human errors. Problems had arisen due to shortage of staff but action was being taken to improve the situation. The

Member suggested that if there was a problem with the Council's payroll the work could be outsourced to a private company.

The Member asked whether the Council could recoup the overpayments. The Audit Manager responded that it depended on circumstances and each case was treated on its merits. One of the overpayments was likely to be recovered in full.

The Audit Manager updated the Committee on the significant internal control issues listed in appendix 4 of the report.

1. Lack of Business Continuity plans

This work was likely to miss its target date. Officers were working with an officer from HCC to draw up a programme of work and a template for use by services was to be devised.

2. Lack of comprehensive procedure notes for key systems

The Audit Manager was chasing Heads of Service for these. They should be completed by December 2006.

3. Project Management processes and skills not embedded

One training session on project management had taken place and another due this month.

A Member asked whether the PRINCE2 toolkit was used. The Audit Manager explained that a more applicable and user friendly toolkit had been developed. The PRINCE2 system was more appropriate for larger projects. In response to a further question from the Member about whether the PRINCE2 system would be used for the leisure project, he said that consultants were being engaged for this project. The Head of Finance confirmed that there was a strong commitment to obtaining value for money and ensuring appropriate audit trails were in place.

4. Lack of comprehensive monitoring, leading to slippage or non-achievement of objectives

The Head of Finance reported that CMB had agreed a report from the Director of Finance which proposed the use of action plans to ensure all recommendations were followed up and reported to the relevant committee.

5. Need to develop more pro-active approach to internal control in all services

The Risk & Insurance Manager had issued a document to all Heads of Service about the type of risk issues they needed to address. The Audit Manager would be speaking to Heads of Service about control but not by September 2006. He was unable to indicate a re-scheduled date at this stage.

RESOLVED

that the work of Internal Audit during the period April to August 2006 be noted.

Chair
Audit Committee

The meeting started at 7.30 p.m.
and ended at 9 35pm.