

## **AUDIT COMMITTEE**

**10 JANUARY 2013**

Present: Councillor I Brown (Chair)  
Councillor A Burtenshaw (Vice-Chair)  
Councillors I Brandon, A Khan and P Taylor

Also present: Councillor M Watkin, Portfolio Holder for Finance and Shared Services (for minute numbers 27 to 35)  
Richard Lawson (Grant Thornton)  
Helen Maneuf, Hertfordshire County Council

Officers: Head of the Shared Internal Audit Service  
Head of Strategic Finance and Shared Services  
Head of Legal and Property Services  
Head of Finance (Shared Services)  
Audit Manager  
Senior Auditor (SA)  
Senior Auditor (CG)  
Committee and Scrutiny Officer

### **24 APOLOGIES FOR ABSENCE/COMMITTEE MEMBERSHIP**

There were no apologies for absence.

### **25 DISCLOSURE OF INTERESTS (IF ANY)**

There were no disclosures of interest.

### **26 MINUTES**

The minutes of the meeting held on 25 September 2012 were submitted and signed.

### **27 REQUESTS MADE UNDER THE FREEDOM OF INFORMATION ACT 2000**

The Committee received a report of the Head of Legal and Property Services setting out the details of the requests made under the Freedom of Information Act 2000 from 1 April 2012 to 30 September 2012.

The Head of Legal and Property Services outlined her report. She advised that following the Committee's request in June 2012 for benchmarking data, officers had been unable to obtain the information despite numerous requests.

The Head of Legal and Property Services responded to Members' enquiries about individual information requests. She advised that she would circulate details of the case referring to the oldest byelaw.

Following a question from the Portfolio Holder about the resources for responding to the Freedom of Information requests, the Head of Legal and Property Services explained that requests were passed to the relevant department and then circulated to the most appropriate officer. Each department had a customer liaison officer who co-ordinated the responses from the officer. The cost was spread across the Council.

The Head of Legal and Property Services added that in those cases where it was considered that researching and providing the information would take longer than 18 hours it was possible to refuse to answer them. The Council was required to provide a reason for not responding to the request.

Councillor Khan referred to a report about Freedom of Information requests to the DVLA by local authorities. The data supplied in these requests was then mis-used. He understood that Watford Borough Council had been mentioned. He asked whether the Head of Legal and Property Services was aware of this report.

The Head of Legal and Property Services replied that she was not aware. She explained that the Council used the DVLA to obtain information about abandoned vehicles, in order to be able to contact the registered keeper. The Parking Shop also contacted the DVLA in connection to penalty notices.

Councillor Khan advised that he would forward the report to the Head of Legal and Property Services.

Following a question from Councillor Brandon, the Head of Legal and Property Services stated that she was not aware of any applications to the Information Commissioner or that the Council was at risk of any penalties.

RESOLVED –

that the report be noted.

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## **REGULATION OF INVESTIGATORY POWERS ACT (RIPA)**

The Committee received a report of the Head of Legal and Property Services setting out the changes to the Regulation of Investigatory Powers Act (RIPA) which came into effect from 1 November 2012, following the introduction of the Protection of Freedoms Act 2012. The report also sought approval to use the National Anti Fraud Network (NAFN) as a single point of contact (SPOC) for communication data requests.

The Head of Legal and Property Services explained that the changes to RIPA had been introduced following press stories of local authorities misusing their powers. The changes had limited local authorities' powers to those cases related to criminal offences where a minimum six-month prison sentence could be imposed or it was believed under age sales of alcohol or tobacco took place.

The Head of Legal and Property Services stated that the second part of the report referred to the use of NAFN, which the Council already subscribed to through the Fraud section.

Following a question from Councillor Brandon about the overuse of the powers, the Head of Legal and Property Services advised that there was a policy in place which officers were required to follow. In order to get authorisation officers had to show that the case was proportionate and that there was the potential for a minimum six months prison sentence. The use of this power was monitored by the Office of Surveillance Commissioners. The last two inspections carried out had demonstrated the Council was acting appropriately.

In response to a question from Councillor Taylor about the use of the powers and the outcomes, the Head of Legal and Property Services explained that the last case was in 2012 in an anti-social behaviour case. Unfortunately the equipment failed. Prior to that it had been used to investigate benefit fraud. Often the surveillance would be set up and no useful information could be obtained.

#### RESOLVED –

1. that the changes made by the Protection of Freedoms Act 2012 be noted.
2. that the Council's use of NAFN as SPOC for communication data requests be approved.
3. that the following posts be authorised to apply to the magistrates court to seek the necessary approvals for surveillance and communications Data:

Managing Director  
Head of Strategic Finance  
Executive Director  
Head of Environmental Services  
Head of Finance Shared Services  
Licensing Manager  
Fraud Manager  
Senior Fraud Investigator  
Licensing Enforcement Officer  
Enforcement Officer  
Anti-Social Behaviour Co-Ordinator

## FOUR REPORTS FROM GRANT THORNTON

The Committee received a report of the Head of Strategic Finance and Shared Services which accompanied the reports from Grant Thornton, including

- Review of Arrangements for Securing Financial Resilience
- Annual Audit Letter 2011/2012
- Fee Letter 2012/2013
- Certification Work Report 2011/2012

### Review of Arrangements for Securing Financial Resilience

Richard Lawson from Grant Thornton stated that the review was an improvement on the previous year. Financial Governance had improved from amber to green. The outstanding issues related to Financial Control, namely local authority error on processing benefit claims and the length of time taken to process benefit claims.

Councillor Brandon noted that one outstanding issue had appeared in the previous year. This was in relation to an analysis of other income streams.

The Head of Strategic Finance and Shared Services explained that this had not been completed due to resources. He had set up a strategy group to resolve this matter but due to other work it had ceased. He hoped to re-introduce the group in April. It had been necessary to prioritise workloads. He added that the Financial Digest provided to Budget Panel would include indicators that could be monitored.

Councillor Khan referred to page 16 of the auditor's report regarding reserves. He asked if the auditor could quantify 'reasonable'.

Richard Lawson explained that this would depend on the financial position of the council. There was no set limit for reserves.

The Head of Strategic Finance and Shared Services added that this included Capital Receipts. The Council's Capital Programme was fully committed; part had been allocated to the Heath Campus and the new market. In a few years time the Auditor might respond differently.

The Chair considered 'reasonable' to be subjective. It was necessary to consider future commitments.

In response to a question from Councillor Brandon about the working capital ratio, the Head of Strategic Finance and Shared Services said that he would prefer to be in Watford's position. Those authorities who had used their reserves or been capped had nowhere to turn. The Council was in a good position but cautioned that there was a long way to go.

The Portfolio Holder said that he had read the Auditor's report and there had been no surprises. He understood the inclusion of Benefits and Finance and

these services had been working hard to get to grips with the issues. He thanked the Head of Strategic Finance and Shared Services, the Head of Finance Shared Services and his team for their hard work. The Council would use its reserves whilst it went through the current economic climate. He noted that the Council was often in the top quartile of comparators.

Following a question from Councillor Khan about the reference to the collection of car parking income on page 33 of the auditor's report, Richard Lawson advised that it was estimated that there was a commercial income of between £6 and £7 million. The Head of Strategic Finance and Shared Services had highlighted the current shortfall.

The Head of Strategic Finance and Shared Services added that the Property section had asked officers to go carefully with companies in the current economic climate. If companies were pushed too much they might go into administration. Officers took on board the auditor's comments.

Councillor Khan asked when the £1.8 million income from Capital Shopping Centres would be included in the accounts.

The Head of Strategic Finance and Shared Services explained that this income was part of the Charter Place agreement. A further update would be presented at the next Major Projects Board; it was hoped the agreement would have been completed.

Following a question about the New Homes Bonus, the Head of Strategic Finance and Shared Services replied that the information would be in the report to be presented to Budget Panel at its next meeting. The calculation of circa £2.2 million was based on the net completions between October and October within the Borough.

Councillor Khan felt that the level of development would plateau. Watford was the densest borough outside London.

The Head of Strategic Finance and Shared Services commented that the Planning Policy Section had indicated that next year approximately 350 residential units were due to be developed. The following year a further 250 units were due to be completed. These figures did not include the Health Campus proposals.

#### Annual Audit Letter 2011/12

The Council had received an unqualified audit opinion within the statutory deadline. It had also received an unqualified Value for Money report.

#### Fee Letter 2012/2013

Richard Lawson reported that the audit fee for 2012/2013 was less than the fee for 2011/2012.

## Certification Work Report 2011/2012

Grant Thornton had certified two claims. The 2012/2013 fee for this work was based on the assumption that there would be no qualification letters issued.

The Chair thanked Richard Lawson and the Head of Strategic Finance and Shared Services and Head of Finance Shared Services and their teams for their work.

RESOLVED –

that the reports and the Council's response be noted.

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### **TREASURY MANAGEMENT UPDATE**

The Committee received a report of the Head of Strategic Finance and Shared Services which provided the regular update of the Council's Treasury Management Strategy and investment performance.

Councillor Brandon noted the Head of Strategic Finance and Shared Services' comments regarding the potential downgrading of the United Kingdom from its triple AAA rating. He asked whether the Council had any investments in Government Bonds.

The Head of Strategic Finance and Shared Services advised that the Council had no direct investment in Government Bonds. With regard to the potential downgrade, the Council's investment policy had previously set a 12-month limit; this was later reduced to six months due to the reduced credit rating.

Councillor Khan noted that the USA and France had been downgraded but it did not appear to have any negative effect on those countries. He asked what effect the potential downgrade would have on the Council's investments. He also enquired whether the Council had considered borrowing money as it was 'cheap'.

The Head of Strategic Finance and Shared Services advised that if the United Kingdom's position stayed the same, the downgrade should not make any difference. The United Kingdom, however, did not appear to be on top of its deficit. More funds were being repatriated to Europe as it was not as risky as it had been. The Bank of England had also relaxed its rules regarding capital adequacy and therefore the pressure had been taken off the banks. This meant that investment rates were likely to remain low.

The Chair said that he had read an article criticising the ratings companies. It was a subjective matter.

Councillor Taylor asked for an explanation why the Head of Strategic Finance and Shared Services thought interest rates might increase.

The Head of Strategic Finance and Shared Services explained that there was an underlying trend to increase mortgage rates as fixed interest deals expired. Banks and Building Societies would at some point be encouraged to clear bad debts. The USA's banks had cleared their bad debts and had begun lending again.

RESOLVED –

that the report be noted.

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## **SHARED INTERNAL AUDIT SERVICE**

The Committee received a report of the County Council's Head of Assurance Services which introduced the Shared Internal Audit Service. Watford Borough Council and Three Rivers District Council would join the shared service from April 2013.

The Chair welcomed Helen Maneuf, the Head of the Shared Internal Audit Service.

The Head of the Shared Internal Audit Service explained the background to the service and some of its benefits.

Councillor Brandon asked what feedback other local authorities involved in the shared service had given.

The Head of the Shared Internal Audit Service explained that feedback was monitored. When the assessment of the service had been carried out, the assessor had invited representatives from each authority to take part, including the Audit Committee Chairs. This had been an independent review. The review had highlighted one particular area, which was the use of the external auditor. The auditor had not been able to build relationships with the authorities they visited.

The Head of the Shared Internal Audit Service informed the Committee that the Head of Strategic Finance and Shared Services had asked her to put together a work plan before the service commenced in April.

Following a question about a hand over period with the current Internal Audit Team, the Head of the Shared Internal Audit Service advised that she had met the Audit Manager prior to Christmas to discuss the Audit plan. The Shared Internal Audit Service was based in Stevenage.

Councillor Khan asked about the day to day service, if a Member had an enquiry.

The Head of the Shared Internal Audit Service explained that the service was not on-site every day, but it was not located very far if anything urgent arose. The service was available by email or phone. The Shared Internal Audit Service was

a purchased service. If a query arose the Head of Strategic Finance and Shared Services would consider the best use of resources.

Following a further question from Councillor Khan, the Head of Strategic Finance and Shared Services confirmed that the Shared Services Joint Committee had agreed that the two councils would join the Shared Internal Audit Service. He added that as Section 151 officer he was satisfied that this would work. The intention was that the bulk of the work would be carried out by the Team

The Head of the Shared Internal Audit Service confirmed that the existing staff would be transferred.

The Head of Strategic Finance and Shared Services informed the Committee that the Audit Manager would be leaving the following day. The other members of his team were present.

The Portfolio Holder thanked the Audit Manager and his team for their work. He had never noted any lack of skills within the team.

Following a question from Councillor Burtenshaw, the Head of the Shared Internal Audit Service advised that the Shared Internal Audit Service was open to all Borough and District Councils within the County.

RESOLVED –

that the report be noted.

## 32 **IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS**

The Committee received a report of the Audit Manager setting out the progress on the implementation of the Internal Audit recommendations. It was noted that Appendix 1 was missing from the printed agenda. The Committee and Scrutiny Officer agreed to circulate it after the meeting.

The Audit Manager commented that the report reflected that Internal Audit was well received in Watford. The Senior Auditor's would present the report at the March meeting.

RESOLVED –

that the contents of the report be noted.

## 33 **INTERNAL AUDIT PROGRESS REPORT**

The Committee received a report of the Audit Manager updating Members on the work undertaken by Internal Audit.



RESOLVED –

that the contents of the report be noted.

**34 EXCLUSION OF PRESS AND PUBLIC**

RESOLVED –

that, under Section 100A (4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following items of business as it was likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during consideration of the item there would have been disclosure to them of exempt information as defined in Section 100(1) of the Act for the reasons stated in the report.

**35 IT SECURITY**

The Committee received a report of the Audit Manager incorporating a report into IT security at Watford Borough Council and Three Rivers District Council.

Members discussed the report. As a result of the discussions it was agreed to add two further resolutions.

RESOLVED –

1. that the current position and the responses from officers to the recommendations within the Appendix be noted.
2. that the Audit Manager's report on IT Security be forwarded to the next available Three Rivers and Watford Shared Services Joint Committee for further review.
3. that an update on IT Security be included as a regular report to this Committee.

Chair

The Meeting started at 7.00 pm  
and finished at 8.35 pm