

AUDIT COMMITTEE

16 March 2017

Present: Councillor D Scudder (Chair)
Councillor T Williams (Vice-Chair)
Councillors S Cavinder, Asif Khan and B Mauthoor

Also present: Hannah Ormston (Ernst and Young)
Andrew Brittain (Ernst and Young)
Councillor M Watkin, Portfolio Holder for Finance

Officers: Head of Finance (Shared Services)
Head of Democracy and Governance
Audit Manager, Shared Internal Audit Service
Committee and Scrutiny Officer

36 Apologies for Absence/Committee Membership

There were no apologies for absence.

37 Disclosure of Interests (if any)

There were no disclosures of interest.

38 Minutes

The minutes of the meeting held on 7 December 2016 were submitted and signed.

39 Presentation: Risk Management

The Head of Democracy and Governance gave a presentation about risk and how it was managed. She covered the following

- Definition of risk
- Definition of managing risk
- Essential requirements for successfully managing risk
- The process in identifying risks or obstacles and considering how they were managed.

- How Watford Borough Council was managing risk
- Role of Audit Committee in risk management

The Head of Democracy and Governance agreed to circulate a copy of her presentation to the committee.

In response to a question from Councillor Williams, the Head of Democracy and Governance informed the committee that all staff were required to complete the online training module regarding risk management. Management teams were required to regularly review their service risk registers. Project teams monitored the risks involved in their projects and identified ways to mitigate them. Contract Management Board, which included officers from Watford and Three Rivers had also undertaken training on risks connected to contracts.

The Head of Democracy and Governance confirmed that when officers wrote reports for committees they were required to consider whether there were any risks involved if their recommendation was implemented and also if it was not agreed. If risks were identified officers completed the risk matrix which was included in the report.

The Audit Committee received an annual report on the council's corporate risk register, which enabled it to review the latest information. If councillors wished to receive it more frequently this could be arranged. The strategy was presented to the committee as changes were made. It had last been reported to councillors in 2016.

The Portfolio Holder, Councillor Watkin, asked how officers decided whether a risk should be included in the service risk register or the corporate version, for example risks associated with Universal Credit.

The Head of Democracy and Governance explained that it would depend on the impact of the risk. For example if the risk related to housing benefits was to materialise there would be a wider impact than just on that service. In this case the risk should be included on the corporate risk register. However, any risk that had a rating of nine or higher should be in the corporate risk register.

The Head of Democracy and Governance confirmed that the council's steering group monitored the service risk registers. The software had been programmed to transfer service risks into the corporate risk register once they met the set criteria.

RESOLVED –

that the presentation be noted.

Corporate Risk Register

The committee received a report of the Head of Democracy and Governance which included the latest version of the council's corporate risk register. It was noted that there was one addition to the register since last year. This was the 'Accommodation Review', which included the redevelopment of the amenities area.

Councillor Khan noted that the stability issues with Academy and Anite was included. The risk rating appeared to have increased even though there were control measures mentioned in the register.

The Head of Democracy and Governance advised that she had asked the Head of Revenues and Benefits if she had wanted to revise the risk rating. However the head of service had stated that she wanted to retain the current rating as she did not yet feel confident in the security of the technology.

The Head of Finance (Shared Services) added that the Director of Finance was conscious of the possible issues with the technology and the potential exposure to the software being down. He commented that for the impact to be 'catastrophic' would depend on how long the programme was down. The software was in the process on being moved to a more stable platform. This would help to mitigate the risk by providing a higher level of stability. He would ask for the latest update on the situation to be circulated to the committee.

Following a further comment by Councillor Khan, the Head of Democracy and Governance stated that the '16' risk rating purely related to the end of year work and as the new bills were being processed.

Andrew Brittain, EY, noted the comments and said that if the controls were in place the risk rating would be expected to go down. He asked if the council considered targets for objectives, capturing the risk appetite of the council. Some authorities showed a net risk and then a target to aim towards.

The Head of Democracy and Governance informed the committee that the strategy set out the council's processes. A 'risk appetite' had not been set. Officers looked at individual projects and considered any potential risk and how they could be resolved.

It was agreed that the Head of Democracy and Governance would report back on this aspect to the Managing Director and Leadership Team for reflection on the suggestion.

In response to a question from Councillor Khan, the Head of Democracy and Governance confirmed that it was likely the risk rating for the Metropolitan Line Extension would change. She reminded the committee that this project was not managed by the council. There was a risk to the town but the council was only able to lobby the relevant organisations to ensure the project would proceed.

Following a question from Councillor Mauthoor, the Head of Democracy and Governance explained that an initial risk assessment was carried out of an objective and a risk rating was generated, however following controls being identified the risk rating could then be reduced accordingly.

In response to a question about the accommodation review, the Head of Democracy and Governance advised that this related to the proposed new building which would replace the current amenities area. Currently the risk register did not show any risks as the project had not started. It had been added as there was a potential for risks as the project progressed. Risks would be considered once the business case had been completed.

The Chair asked officers to reflect on the committee's comments.

RESOLVED –

that the committee's comments be noted.

41 **Annual Governance Statement - Action Plan Update**

The committee received a report of the Head of Finance (shared services) which provided details of the progress in implementing the actions required in the Annual Governance Statement. The Head of Finance (Shared Services) advised that the council wanted to ensure that all processes were in place prior to carrying out the disaster recovery test. This would ensure there was a successful recovery.

RESOLVED –

that the progress made against the action plan be noted.

42 **Changes to Accounting Policies: 2016-17 Annual Statement of Accounts**

The committee received a report of the Head of Finance (shared services) stating that there were no significant changes to the council's accounting policies.

RESOLVED –

that the committee notes that there are no significant changes to the council's accounting policies.

43 Internal Audit Plans 2017-18

The committee received a report of the Head of Finance (shared services) and Shared Internal Audit Service setting out the proposed 2017/18 Internal Audit Plans for Watford Borough Council and the Watford and Three Rivers shared services.

RESOLVED –

that the Watford Borough Council and Watford and Three Rivers Shared Services Internal Audit Plans for 2017/18 be approved.

44 Internal Audit - Update on progress against the 2016-17 Audit Plan

The committee received a report of the Shared Internal Audit Service setting out the latest progress made in implementing audit recommendations.

The Audit Manager provided an update on some of the statistics included in the report. It was noted that 87% of audit plan days had been delivered compared to 83% in the report. A further two audits had been completed; 'Budget Monitoring' had no recommendations and 'Creditors' had received a 'substantial' assurance level with one medium priority recommendation.

In response to a member request, the Audit Manager agreed to circulate the final report for the 'section 106 agreements' audit.

Following a question from Councillor Khan, the Head of Finance (Shared Services) informed the committee that the audit plan, which was agreed by the committee, was produced following discussions between internal audit and services. Service managers and heads of services indicated any audits they wanted to be carried out. They suggested subjects that could help them to develop improved practices. The Shared Internal Audit Service's knowledge of other local authorities also helped with identifying potential subjects. Leadership Team was provided with the information and could also identify areas it considered would be useful to audit. The Audit Committee had the opportunity to review the plan and make suggestions councillors thought would be suitable for inclusion.

Councillor Williams could recall that on a previous occasion the committee had requested that internal audit should divert some audit days to review Charter Place. This had been carried out.

Following Councillor Williams's comment about the lack of an update on a recommendation for an audit on Benefits carried out in 2014/15, the Chair stated that he also had concerns about the lack of updates in some cases. He asked the Head of Finance (Shared Services) to ensure that all recommendations had an update at the next meeting. If an update was still not provided officers would then be directed that they would need to attend the following meeting and provide an explanation to the committee.

The Head of Finance (Shared Services) agreed that he would report this information to all services and ensure they were aware of the committee's requirements.

RESOLVED –

1. that the Internal Audit Progress Report for the period to 24 February 2017 and updated at the committee be noted.
2. that amendments to the Audit Plan as at 24 February be approved.
3. that the removal of the implemented recommendations (shown as Appendix C to the report) be agreed.
4. that the changes to the implementation date for 9 recommendations (paragraph 2.5.1 of the report) for the reasons set out in Appendix C to the report be agreed.
5. that the committee's comments about the recommendations with no updates be noted and actioned as necessary

45

External Audit Certification Work

The committee received a report of the Director of Finance and external auditor setting out the annual certification work letter for the claims and returns for 2015-16.

Hannah Ormston, EY, explained the different aspects of the report. She advised that the auditor's had to test the housing benefits subsidy claim. The claim had been certified after the deadline as explained in the letter. The annual report also included details of the variation to the certification fee, looking forward to the year ahead and any recommendations with their agreed actions.

Following a question from Councillor Khan, Hannah Ormston explained that initially the auditor reviewed 20 cases of each type of benefit. If an error or

errors were identified, no matter how small, a further 40 cases had to be reviewed. A final decision was extrapolated from those results. As yet there had been no information of any action to be taken by the Department for Works and Pensions.

Andrew Brittain added that there was no materiality concept for Housing Benefits accounts which resulted in most local authorities having their housing benefits accounts qualified. It did not have the same significance as having the annual accounts qualified. The rules for the subsidy were set out by the Department for Works and Pensions.

The Head of Finance (Shared Services) reminded the committee that the service was dependent on the information supplied by claimants; this could on occasion result in an overpayment being made.

RESOLVED –

that the contents of the certification work letter be noted.

46

External Auditor's report to committee

The committee received a report of the Head of Finance (shared service) and the external auditor which included the auditor's Audit Plan and 'Local government audit committee briefing'.

Andrew Brittain highlighted the work the company would be carrying out over the following year. The plan contained the timetable of work which showed there would be accelerated testing over the coming year. This would ensure the council and auditors would be able to meet the new deadlines for the 2017/18 accounts.

Andrew Brittain also introduced the briefing which covered issues that may have an impact on the council or were of potential interest to the organisation.

RESOLVED –

that the contents of the Audit Plan and Local government audit committee briefing be noted.

47

Committee Work Programme

The committee received a report of the Head of Finance (shared services) setting out the Committee's proposed work programme for 2017/18.

It was noted that the regular reports about Freedom of Information requests had not been included in the list. The work programme would be updated to ensure they were included in June and December. It was also necessary to add the external auditor's plan to the list of items for March 2018.

The committee was informed that it would not be required to sign off the draft statement of accounts in June; however it would be presented to the committee for information. The draft statement of accounts had to be delivered to the external auditor by 30 June.

The Chair stated that he would discuss a suitable training topic for the next meeting with officers.

RESOLVED –

that the updated work programme be agreed and amended as discussed.

Chair

The Meeting started at 7.00 pm
and finished at 8.20 pm