

## **AUDIT COMMITTEE**

**25 SEPTEMBER 2012**

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

Also present: Richard Lawson (Grant Thornton)

Officers: Head of Legal and Property Services  
Head of Strategic Finance and Shared Services  
Finance Manager  
Audit Manager  
Senior Auditor  
Committee and Scrutiny Officer

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

There were no apologies for absence.

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

There were no disclosures of interest.

### **17 MINUTES**

The minutes of the meeting held on 27 June 2012 were submitted and signed.

### **18 OMBUDSMAN'S ANNUAL REVIEW**

The Committee received a report of the Head of Legal and Property Services including a copy of the Ombudsman's Annual Review of its dealings with the Council for the financial year 2011/12.

The Head of Legal and Property Services explained that the number of enquiries and complaints received in the year did not correspond with the number of decisions. This was because some decisions related to complaints received in the previous year and some of the complaints received in 2011/12 had not been completed within the financial year. There had been two cases where the Council had recognised that there had been a problem and resolved the situations prior to the Ombudsman completing their review of the cases.

The Head of Legal and Property Services added that the Ombudsman had found there to be no maladministration by the Council in any of the enquiries and complaints. The Ombudsman had been satisfied with the Council's response times.

Councillor Brandon asked whether there was anything significant about the two cases resolved by the Council prior to the Ombudsman's decision.

The Head of Legal and Property Services advised that one case related to a Housing Benefit claim, where the backdate calculation had not been completed correctly. The case had been reviewed and recalculated and the appropriate level of Housing Benefit had been granted. The Head of Legal and Property Services stated that she was unable to recall the other case.

RESOLVED –

that the Annual Review be noted.

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## **EXTERNAL AUDITOR'S REPORT**

The Committee received a report of the Head of Strategic Finance which accompanied the report from Grant Thornton regarding the report to those charged with Governance (ISA620) and the Council's Statement of Accounts for 2011/2012.

### Report to Those Charged with Governance (ISA260)

Richard Lawson, external auditor from Grant Thornton, introduced his report shown at Appendix 1 to the report. He explained that the purpose of the report was to provide an opinion on the key issues affecting the Council's results and value for money. He highlighted that there were only four bullet points in the report which had required finalising. This was the shortest list and reflected the work of the Finance Team. In the previous year there had been a problem with the delivery of the accounts on time. This year, however, the complete set of accounts had been received ahead of time. There were no major adjustments. He highlighted one misstatement which referred to the number of unrepresented cheques over six months old.

The Finance Manager explained that in the past cheques expired when they were over six months old; however, that was no longer the case. Cheques were valid until they were presented to a bank or cancelled. The majority of the unrepresented cheques were in connection with refunds for Council tax or national Non-Domestic Rates. The Finance Team was unable to cancel the cheques until they were sure there had been a reversal on the Revenues system. The list of unrepresented cheques had been forwarded to Revenues. A meeting would be arranged to go through the list.

Richard Lawson then referred to the section on Value for Money. He said that there had been great improvement in budget control in the Shared Services Unit. He highlighted the rise in overpayments of Housing and Council Tax Benefit. It had been noted that the notification of regulation amendments from the Department of Works and Pensions (DWP) had not been actioned since July 2011. It had been fortunate that the overpayments, which could not be received back as a subsidy, had been offset by the New Homes Bonus. The Auditor's

recommendations were set out in Appendix A of the report and the previous year's recommendations were set out in Appendix B.

Councillor Taylor asked for an explanation why the earmarked reserves' action, shown in Appendix B, had not been completed.

The Head of Strategic Finance replied that this action had been included in the previous year's report. The reserves were reviewed and were in place for specific purposes. A report on reserves would shortly be presented to Cabinet and Budget Panel. The reserves would be reviewed again in January. He understood that in Three Rivers the reserves were not separated out.

The Finance Manager confirmed that the reserves in Three Rivers were included in the General Fund balance.

The Head of Strategic Finance added that in his opinion if they were all combined in one account, there would be a loss in transparency.

Councillor Burtenshaw noted the increase in benefits overpayments. He asked whether any solutions were in place or if it would happen again.

The Head of Strategic Finance advised that benefits had been discussed at the Shared Services Joint Committee the previous evening. The discussion had included the level of staffing and whether agency staff or permanent staff should be employed. A growth bid for the service's budget had been agreed at the meeting. Overpaid benefits could be claimed back from the claimant, but it was more difficult to recover the money. He informed the Committee that the DWP had flagged up the service as in the top quartile of poor performing authorities. This was an ongoing problem.

Councillor Khan asked for assurances that the processes were now in place and the problem would not happen again.

The Audit Manager explained to the Committee that ATLAS was a bolt-on system to the benefits programme. Once it was in place it should automate changes in circumstances reported from the DWP. The automated changes should reduce the level of Local Authority error.

Richard Lawson added that it would also reduce the amount of time take to process change in circumstances applications.

Councillor Khan stated that there were fundamental problems and it was not solely linked to staff. If the service had been aware there were going to be a higher number of claims then they would have employed more staff. At a recent Budget Panel meeting, Members had discussed reserves and that funds had been set aside to cover this matter. This money could have been used for something else.

The Head of Strategic Finance reminded the Committee that Watford Borough Council was the client in this case. It did not provide the benefits service.

Councillor Brandon asked whether Shared Services was behind in integrating the system. He questioned whether staff were not used to doing the work. He also questioned whether other authorities had similar difficulties.

The Head of Strategic Finance responded that he understood that there were problems in other authorities. He suggested that if Members were concerned about the problems within the service they could make a recommendation to the Shared Services Joint Committee.

The Audit Manager advised that work was currently taking place to implement ATLAS. Once in place the automatic changes would replace those currently carried out manually. He added that the Internal Audit review of the service would review this area. This would be a fundamental change how benefit processes operated.

Members agreed that their concerns should be expressed to the Shared Services Joint Committee. It was suggested that the resolution should require the Shared Services Joint Committee to look into the problems as a matter of urgency.

Following a questions about the level of overpayments for Three Rivers, Richard Lawson advised that he was unable to discuss another authority's accounts, but he could advise that it was less than Watford.

The Committee was reminded that the Statement of Accounts and auditor's report for Three Rivers would be presented to its Audit Committee on Thursday. The information would be available on the authority's website.

Councillor Khan referred to the key audit issue regarding the council tax debtor balance at the end of the year.

Richard Lawson explained that Grant Thornton had been advised that a year-end debtor balance had not been produced. The auditors had since gained assurances and therefore not added this as a qualified point.

The Chair thanked everyone for the thorough discussion on the Auditor's report.

#### Statement of Accounts 2011/2012

The Head of Strategic Finance introduced the Statement of Accounts and said that the smooth production was a credit to Finance (Shared Services).

The Chair asked for an explanation regarding the permanent financing shortfall of £350,000 in relation to concessionary fares.

The Head of Strategic Finance explained the concessionary fares scheme and how it was financed at a local level. There was a formula used to calculate the funding. Watford was a transport hub and the number of journeys starting in Watford were higher than other local areas. The grant had been lower than the

actual cost. The deficit had been added to the budget and had been compensated through service prioritisation efficiency savings.

Following a question from the Chair about the differences between the original budget and the outturn in respect of the Strategic Finance/ Capital Adjustments cost centres, the Finance Manager explained that when the budget was set each year it was not known which assets would be revalued. She assured Members that this did not affect Council Tax. These were technical adjustments.

The Chair asked whether there had been any progress on the comprehensive review of Fraud, shown as number 4 on the list of significant governance issues.

The Audit Manager advised that progress had been made. A Health Check had been carried out by an independent company, which included ethical hacking. The report was currently with the Head of Strategic Finance.

The Head of Strategic Finance confirmed he had the report and that the Committee would receive information at the next meeting. Any action which could be completed before January would be done and the Committee provided with an update.

Following a question from the Chair, Richard Lawson reported that the employee benefits referred to were part of the accounting standards. It was necessary to assess the number of days of annual leave were left at the end of the year.

The Finance Manager added that it was necessary to carry out this calculation to prove that it was not material to the final accounts.

Councillor Khan asked for the percentage in relation to the loss of commercial rent income in the report.

The Head of Strategic Finance advised that the Council used to receive approximately £7 million and it was now closer to £6 million.

It was noted that the General Fund and available usable reserves should have read '£9.395m' and not '£9,395m'.

The Chair asked the Head of Strategic Finance and the Finance Manager to thank all relevant staff who had worked very hard. He also thanked the external auditors.

RESOLVED –

1. that the external auditor's 'Report to those charged with Governance' be noted.
2. that the Committee's comments concerning the Statement of Accounts for 2011/12 be noted.

3. that the Committee confirms it is satisfied that the accounting policies adopted are the most appropriate.
4. that the Statement of Accounts for 2011/12 be approved.
5. that the Shared Services Joint Committee be informed that the Audit Committee is not happy with the levels of 'Local Authority Error' and for which no government subsidy would be received. Further, that the Audit Committee is concerned that not all "Atlas" notifications have been actioned. The Audit Committee requests the Shared Services Joint Committee to consider these issues as a matter of urgency.

## 20 **STATEMENT OF ACCOUNTS**

This item was included in the previous report, minute number 19.

## 21 **TREASURY MANAGEMENT UPDATE**

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

The Head of Strategic Finance highlighted the reference in the report to the Money Market Funds and the decision to invest £3 million with Deutsche Asset Management.

Councillor Brandon asked for clarification regarding the amount invested with Nat West Bank.

The Head of Strategic Finance explained that the Treasury Management Policy allowed a maximum investment of £5 million in banks. The Co-Operative Bank and Nat West Bank were exceptions. The money was placed in overnight accounts and it could be pulled back immediately. As the Council had entered into the Shared Service with Three Rivers it was possible to get a higher rate of interest than standard. He tried to ensure that the Council spread the risk.

RESOLVED –

that the report be noted.

## 22 **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.

The Audit Manager reported that he was pleased with the positive responses from services. The number of requests for extended time had reduced. The BACS payments had finally been transferred from ICT to Revenues and Benefits and Finance. He added that he had not followed up on any subsequent work since the publication of the report.

Councillor Khan said that ICT was to be outsourced. He questioned how services would work with the systems in place and an outside company. He considered there to be two threats to the Council: One of those threats was the remote accessing of internal computers by people who were not council employees. He noted many issues had been resolved. He suggested a new check would be required.

The Audit Manager advised that having an external company should not make any difference. There was still work to be done and the final recommendations to be completed. Consideration would need to be given as to whether to include the new supplier in the implementation process. The Council would still have to have an annual IT Health Check and any vulnerability would be picked up and added to an action plan. It would be necessary to do this to be able to continue to access the gcsx (a secure email system).

The Head of Strategic Finance added that firewalls would need to be checked if the servers were moved to another location. He said that Members' comments would be taken on board.

RESOLVED –

that the contents of the report be noted.

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#### **INTERNAL AUDIT PROGRESS REPORT**

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

The Audit Manager informed the Committee that since the report had been published the following reports had been finalised –

- Treasury Management issued 17 September
- Budget Monitoring issued 18 September
- Benefits Administration issued 21 September
- Financial Procedure Rules issued 21 September
- National Non-Domestic Rates issued 25 September
- Council Tax issued 25 September

RESOLVED –

that the contents of the report be noted.

Chair

The Meeting started at 7.00 pm  
and finished at 8.00 pm