

AUDIT COMMITTEE

13 MARCH 2013

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

Also present: Councillor Mark Watkin, Portfolio Holder for Finance and
Shared Services
Richard Lawson (Grant Thornton)
Helen Maneuf (Hertfordshire County Council)

Officers: Head of Strategic Finance and Shared Services
Senior Auditor (CG)
Senior Auditor (SA)
Committee and Scrutiny Support Officer (JK)

36 APOLOGIES FOR ABSENCE/COMMITTEE MEMBERSHIP

There were no apologies for absence.

The Committee and Scrutiny Support Officer advised that following the resignation of Councillor Burtenshaw there was now a vacancy on Audit Committee.

37 DISCLOSURE OF INTERESTS (IF ANY)

There were no disclosures of interest.

38 MINUTES

The minutes of the meeting held 10 January 2013 were submitted and signed.

39 GRANT THORNTON UPDATE

The Committee received a report of the Head of Strategic Finance and Shared Services which provided a response to the update report from Grant Thornton.

Richard Lawson introduced the report and noted that everything was in place at this stage and there were no causes for concern. The audit was still at a very early stage and there would be more detail at the next meeting.

Following a question from Councillor Khan about the current situation with the Revenues and Benefits service, Richard Lawson advised that the interim audit

had not yet commenced. He would be meeting the Managing Director and the Head of Finance and Shared Services later that week for an update.

Councillor Brandon referred to the potential to change the lease agreement with Capital Shopping Centres (CSC) and asked for more information. The Head of Finance and Shared Services referred to whether under the new accounting rules it could still be considered an operating lease. He highlighted that with the level of top-ups there was still an element of risk. He would be meeting Grant Thornton to discuss the issue further.

Following a further question from Councillor Brandon, the Head of Finance and Shared Services responded that there was more confidence about the Growing Places funding. The Council would receive the funds in the next financial year and the financial models showed that the money would be generated to repay the loan within five years.

Councillor Brandon asked the Head of Finance and Shared Services to comment on the potential effects of a freeze in business rates in the forthcoming budget. The Head of Finance and Shared Services noted that if there was a freeze, bills would need to be resent. There could be funding from Government for councils if there was a freeze, but there was the possibility of a shortfall.

ACTION – The Head of Finance and Shared Services to circulate any further information about the CSC lease and business rates to the Audit Committee as it is available.

The Portfolio Holder noted that Watford could be a net loser with the retention of business rates.

RESOLVED –

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

40

TREASURY MANAGEMENT UPDATE REPORT

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 Khan referred to an article he had read about negative interest rates and asked what their effect would be. The Head of Finance and Shared Services replied that it was likely that smaller investors were likely to be protected in this scenario but the Council would probably see a further depression in its interest rates.

Councillor Brandon referred to the £2 million that the Council planned to reinvest in Barclays and asked why these funds were not being invested elsewhere at a higher rate. The Head of Finance and Shared Services responded that the Council needed to spread its investments and other banks already had

significant amounts invested in them. Building societies were not as highly credit rated as Barclays which was a strong institution. The security of the investment was the top priority.

Councillor Khan asked officers to comment on the effects of the loss of the UK's Triple A credit rating and the devaluation of the pound in recent years. The Head of Finance and Shared Services responded that if the loss of the credit rating meant that government had to pay more, it could pass on the cost by increasing the rate of the Public Works Loan Board. However, the cost of borrowing for the government had not yet increased. With regard to the devaluation of the pound, the Head of Finance and Shared Services noted that fuel prices had increased and very few energy companies were British. Pension funds had suffered and although equities were up, gilt levels were very low.

RESOLVED –

that the report be noted.

41 **TREASURY POLICY STATEMENT**

The Committee received a report of the Head of Finance and Shared Services informing Members of the Treasury Management Annual Report and Prudential Indicators for 2011/12. The report also included a mid-year review of the Treasury Management function in 2012/13 and the Treasury Management Strategy for 2013/14 – 2015/16.

The Head of Finance and Shared Services introduced the report. He highlighted that the Council was still debt-free and the investments had out-performed the investment return benchmark. There had been no external borrowing but the report recommended the ability to borrow up to £10 million. Appendix 3 to the report set the parameters for borrowing and investments in the next financial year. The recommendation was to continue to allow the Council to borrow for long-term regeneration projects.

The Chair advised the Committee that this report was also due to go to Council for approval.

Councillor Khan advised that given the short time the Committee had had to read the report, he would prefer not to recommend appendix 3 to Council until he had had more time to consider the detail.

The Portfolio Holder commented that the Council was looking at going into debt in a controlled way. The risks to the Council had been minimised.

The Head of Finance and Shared Services suggested that the Committee may wish to refer the appendix to Council rather than approve it.

RESOLVED –

1. that the Committee notes the Treasury Management Annual Report 2011/12; the Mid Year Treasury Management Monitoring Report 2012/2013, the Treasury Management Strategy Statement 2013/14 – 2015/16 and the Treasury Management Practice guidance.
2. that the Committee refers Appendix 3 to Council for approval.

42

IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

The Committee received a report of the Senior Auditor providing Internal Audit's regular report on progress of the implementation of Internal Audit's recommendations. The Senior Auditor (CG) reported that there had been extensions to 19 of the recommendations; 14 of these were for ICT.

Councillor Brandon emphasised the importance of ensuring that any incomplete recommendations went over to the Shared Internal Audit Service (SIAS) in April. He noted that a number of the recommendations were dated for completion in May 2013 and asked whether these would be deliverable. The Senior Auditor (CG) replied that recommendations needed to be finalised on a number of reports and that capacity would increase with the introduction of the SIAS. The Head of Finance and Shared Services added that there was a plan with Capita to taken on the ICT recommendations but many of them had already been addressed.

The Portfolio Holder noted that security was the key issue in the changeover to Capita. It may be sensible in the short term to defer some of the recommendations if there were higher priorities for the service.

Councillor Khan asked if the Council could be sure that the ICT systems had not been hacked. The Head of Finance and Shared Services assured the Committee that the financial systems were secure and daily reconciliations were carried out. The Senior Auditor (CG) advised that the Head of ICT could give further information about the security of the systems.

Councillor Khan noted that this was an urgent issue. He asked if processes were in place to address vulnerabilities. The Portfolio Holder said that this was an appropriate issue for consideration by the Shared Services Joint Committee. The Head of Finance and Shared Services suggested that the Head of ICT be asked to circulate a response to the Committee and to the Shared Services Joint Committee.

ACTION – Head of ICT

Councillor Khan informed the Committee that he had concerns about the current lack of capacity within the Internal Audit team. Helen Maneuf, the Head of the Shared Internal Audit Service, responded that work had had to be prioritised since the departure of the Audit Manager. From 1 April Watford would be part of

the SIAS and the new service would take on the risk. This was a key benefit for the Council of joining the partnership.

RESOLVED –

that the contents of the report be noted.

43 **INTERNAL AUDIT PROGRESS REPORT**

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

Councillor Brandon noted that some work had been allocated to Deloitte and asked what the budgetary implications of this were. The Senior Auditor (CG) noted that some ICT audits had not been required this year and this had freed up some resources. The Head of Finance and Shared Services added that there was currently contingency in the budget for this but in the next financial year this would not be required as the SIAS had access to the expertise needed.

RESOLVED –

that the contents of the report be noted.

44 **INTERNAL AUDIT PLAN 2013/2014**

The Committee received a report of the Head of Finance and Shared Services introducing the Audit Plan for 2013/14. The Head of the Shared Internal Audit Service, introduced the plan to the Committee. She advised that the key point was that this would be a year of transition where the SIAS was picking up responsibility for internal audit. Discussions with officers had already begun but the plan may need further refinement as these discussions continued.

The Head of Finance and Shared Services asked whether there had been a dialogue with Grant Thornton. The Head of the Shared Internal Audit Service responded that there was a good working relationship with them as Grant Thornton were the External Auditors for a number of the district councils in the service. A formal meeting to discuss Watford would be arranged.

In response to a question from Councillor Khan about the scale used in risk assessments, the Head of the Shared Internal Audit Service explained that the A-D scale was used for simplicity. She explained how the risk assessment determined whether an audit was included in the plan.

The Chair asked whether the assessment of the risks could be considered subjective. The Head of the Shared Internal Audit Service replied that this was the case whether the assessment was made by the auditor alone or by the auditor in consultation with the relevant manager. She added that the auditors also considered how an audit might add value to a service.

Councillor Brandon highlighted three areas where the audits had been deferred and he questioned whether they should be a higher priority. These were housing lettings, the expenditure of the parking reserve and the new commissioning framework. The Head of the Shared Internal Audit Service responded that these were good reasons to re-evaluate the plan although the areas included for 2013/14 were also considered to be important. She would discuss these areas with the Head of Finance and Shared Services. Some areas could be audited through a self-assessment in future years.

Councillor Taylor referred to the audit of cyber risk timetabled for quarter 4 and asked if this could be brought forward. The Head of the Shared Internal Audit Service advised that ICT vulnerabilities would be audited in quarter 2 and this would inform later work. The Head of Finance and Shared Services added that auditors were kept updated with progress and if necessary the audit could be brought forward.

The Portfolio Holder commented that he was pleased that SIAS were proactive and he hoped that they would train people before problems were encountered. The Head of the Shared Internal Audit Service affirmed that this was part of the partnership. She added that planned audit work could be re-prioritised, for example, if the Audit Committee wished to have extra assurance about emerging risks. Also there was the possibility of drawing down added days from SIAS if the need ever arose. Following a question from the Head of Finance and Shared Services the Head of the Shared Internal Audit Service confirmed that training for Audit Committee members was planned for June. She would advise members of the details.

RESOLVED –

that the Internal Audit Plan be approved.

Chair

The Meeting started at 7.00 pm
and finished at 8.00 pm