

## **AUDIT COMMITTEE**

**26 JUNE 2013**

Present: Councillor I Brown (Chair)  
Councillors I Brandon, A Khan, T Williams and L Ayre (For  
minute numbers 1 to 10)

Also present: Councillor Stephen Johnson  
Richard Lawson, Grant Thornton  
Helen Maneuf, Head of Assurance at Hertfordshire County  
Council  
Claire Maxwell (Press) (For minute numbers 1 to 10)

Officers: Head of Legal and Property Services (Minute Numbers 1 to 4)  
Head of Strategic Finance and Shared Services  
ICT Client Manager  
Fraud Manager  
Finance Manager  
Senior Auditor (CG)  
Senior Accountant (RH)  
Committee and Scrutiny Support Officer (RW)

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

There was a change of membership for this committee: Councillor Ayre replaced Councillor Taylor.

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

There were no disclosures of interest.

### **3 MINUTES**

The minutes of the meeting held on 13 March 2013 were submitted and signed.

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

The Committee received a report of the Head of Legal and Property Services setting out details of requests made under the Freedom of Information Act 2000 from 1 October 2012 to 31 March 2013.

The Head of Legal and Property Services introduced her report and said that she had received an email from Councillor Brandon requesting further information on certain of the Freedom of Information (FOI) requests. She advised that she had sent information in emails to all members of the committee answering his questions.

The Head of Legal and Property Services referred to point 3.5 in the report and advised that the Revenues and Benefits Service had received a large number of requests not all of which had been answered. She noted that the service had cleared much of the backlog; since the report had been produced the backlog had reduced to three outstanding requests.

The Head of Legal and Property Services then advised that there were a number of requests outstanding regarding the IT services. She said that she had spoken with staff in the service; although there had been no response by the time of the meeting, she would continue to seek answers and would update the committee when these were available.

The Head of Legal and Property then gave a brief explanation of which organisations or individuals made FOI requests and types of topics covered.

In reply to a question from the Chair regarding case number 1010299476 on page 21 of the report, the Head of Legal and Property advised that this request was not related to the Legal and Property Service but that she would ask the section involved and then circulate the answer.

**ACTION:**                    Head of Legal and Property

Councillor Brandon thanked the Head of Legal and Property and said that he appreciated the thoroughness of the work involved.

The Chair asked whether there was any benchmarking for FOIs with other local authorities.

The Head of Legal and Property replied that data had been received in the past from St Albans City and District Council which had enabled comparisons to be made. There had, however, been no feed back from St Albans for some time and consequently benchmarking was no longer possible.

Councillor Khan considered that a figure of 75% was meaningless unless benchmarking was in place.

The Head of Legal and Property Services said that attempts had been made to obtain information from other local authorities but that these were not available. In response to a suggestion from Councillor Khan that national benchmarks could be used, the Head of Legal and Property Services agreed to discover whether these existed.

**ACTION:**                    Head of Legal and Property Services

Councillor Williams asked for which areas of the Council most requests had been received.

The Head of Legal and Property replied that requests tended to follow trends; these could be initiated by topics in the media, items of current interest or could be generated by journalists. She noted that 196 requests had been made during the previous six months and that this was an average number for the time span. She then enumerated current trends:

- Requests regarding rateable properties had been requested from the Revenues and Benefits Service
- The Parking Service had received requests associated with challenging parking tickets
- Companies regularly requested data when searching for information regarding the deceased: estates, burials and testator matters.
- Journalists made requests in connection with current 'hot' topics

In response to a query from Councillor Williams, the Head of Legal and Property Services said that FOIs were an expense to the Council in terms of officer time.

Replying to a further question from Councillor Williams with regard to data protection, she advised that queries regarding a third person were subject to data protection principles; where queries involved information on the enquirer themselves, data protection rules applied and a £10 fee was required. She advised that there were fewer data protection than FOI requests and that the majority related to housing matters.

Councillor Johnson said that 25% of FOI requests were not answered and that this was unacceptable. He noted that the post of the officer who dealt with requests was about to be deleted and asked who would take responsibility for these matters in the future.

The Head of Legal and Property replied that responsibility would be shared between two managers in the Customer Service Centre; she, however, would have overall responsibility for making sure that tasks were completed and would send notification to Heads of Service when deadlines for replies were close. She added that the weekly updates would continue.

**RESOLVED –**

that the contents of the report be noted.

## **5 GRANT THORNTON - AUDIT PLAN 2012/2013 AND AUDIT UPDATE**

The Committee received a report of the Head of Strategic Finance.

Richard Lawson gave a brief explanation on the challenges as itemised at page 68 of the agenda. He noted that a considerable risk remained with regard to the

Atlas updates but that no specific problems were anticipated for Charter Place, the Section 151 Officer or the Health Campus.

Councillor Khan asked why the Croxley Rail Link had not been included as a risk.

Richard Lawson replied that final approval was still awaited on this project.

The Head of Strategic Finance explained that funding had been secured for the rail link and that progress was on schedule. There was consequently no risk at the present time. In response to a comment from Councillor Khan, the Head of Strategic Finance said that he was unaware that Herts County Council considered this project as high risk but agreed to check whether this was correct.

**ACTION:** Head of Strategic Finance

Helen Maneuf advised that the project was on the corporate risk register but said that she was not aware that it was deemed by external auditors to be a high risk.

Councillor Khan said that he considered that to share the Section 151 officer between Three Rivers District Council (TRDC) and Watford Borough Council (WBC) constituted a risk.

The Head of Strategic Finance advised that since the Health Campus and Charter Place projects had been signed off and that the ICT and Waste services had been outsourced, the new Section 151 officer could concentrate on other matters in the future.

The committee then considered the section of the report dealing with progress at June 2013.

Richard Lawson advised that there were no problems associated with the 2012 / 2013 Accounts Audit Plan.

Councillor Khan asked whether there had been structures in place to monitor any possible risks in connection with ICT outsourcing.

The ICT Client Manager replied that there had been no staff changes: existing staff had been subject to 'TUPE' during the outsourcing process. The infrastructure was currently being updated and the entire network had been redesigned. He further advised that there would be two data systems with 29 minutes difference between their running times. This would ensure that there would be a minimum loss of data.

**RESOLVED –**

that the reports be noted.

**FRAUD ANNUAL REPORT 2012/13**

The Committee received a report of the Head of Finance (Shared Services) informing Members of the work of the Fraud Section during the financial year 2012 – 2013.

The Fraud Manager drew Members' attention to the checklist on page 109 of the agenda. This advised that the statistic for fraud was £73 billion nationally, £2.2 billion of which could be assigned to local government; the highest level of fraud was associated with tenancy fraud. He advised that the Council had been successful in obtaining funding for a fixed-term staff post to work at reducing illegal sub-letting. It was hoped that this initiative would result in the recovery of approximately 20 properties by the end of the period of this post. It was anticipated that when the post-holder left the Council good practice would have been established which could then continue into the future.

In response to a query from Councillor Williams, the Fraud Manager advised that considerable costs accrued to the Council through funding for people to stay in Bed and Breakfast accommodation. Under the post holder's remit to identify fraud associated with subletting, it was anticipated that additional properties becoming available could be offered to those in the Bed and Breakfast housing.

The Fraud Manager informed the Committee that the core aspect of the section's work was benefit fraud. He noted that 20 final penalties had been issued, there had been 190 interviews under caution and 556 referrals. He also drew attention to the invoices for overpayments for fraudulent claims totalling over £700,000 at WBC. He advised that data matching was essential and that the section worked closely with other agencies such as the Department of Work and Pensions.

The Fraud Manager noted that Tenancy Fraud was an emerging risk, due in part to insufficient social housing; this was likely to lead to further problems. It was hoped that the new staff post would have maximum impact in this area.

The Chair commented on point 7 of the Checklist on page 109 of the report, Rising awareness of Fraud Risks: this had not been applied for agency staff. The Fraud Manager advised that this was a matter which would be addressed in the future: agency staff would be trained prior to the start of their contract.

Councillor Brandon considered that it was imperative that sufficient checks were provided for within Service Level Agreements for outsourced services.

Councillor Khan asked if the recession had had an impact on the levels of fraud.

The Fraud Manager replied that there was now more diversity and more changes in circumstance in respect of claims.

Councillor Khan asked whether the backlog in dealing with changes in circumstance had been taken into account; he noted that fraud could arise through the benefits section not dealing with these changes sufficiently quickly.

The Fraud Manager agreed that the backlog had resulted in problems for his team as it was consequently difficult to verify all the facts.

Replying to a query from Councillor Williams, the Fraud Manager advised that benchmarking in fraud issues no longer occurred in other councils in Hertfordshire. He added that comparisons would necessarily be with councils in London which would not be accurate or analogous to Watford.

Councillor Khan noted that a new regime for benefits would shortly be in place and asked whether there would then be the possibility of increased problems associated with fraud.

The Fraud Manager noted two significant changes: Universal Credit and the Council Tax Reduction. He was not convinced that Universal Credit would come into force but advised that in the event that it was introduced, a system would be developed which would integrate risk management. With regard to Council Tax Reduction, he believed that there would be risks comparable to those associated with benefit schemes since the scheme would be based on the same data.

Councillor Khan asked how many referrals had been malicious and why 136 of the 556 referrals had been rejected.

The Fraud Manager replied that approximately 20 per year were malicious. With regard to the rejected referrals he advised that all referrals were risk assessed and that they must all meet certain criteria. Some of those cases that failed risk assessment were in respect of individuals not in receipt of benefit; the informant would not know or be told that information.

Councillor Khan noted the table at point 3.13 in the report and asked what constituted the 'Other' overpayments.

The Fraud Manager said that as a consequence of investigations it frequently became apparent that the recipient was credited with further benefits through other agencies.

RESOLVED –

that the report and the content referred to including the Audit Committee checklist at Appendix A be noted.

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## **INTERNAL AUDIT ANNUAL REPORT 2012/2013**

Helen Maneuf from Hertfordshire County Council introduced the report and explained that this gave an overall summary of achievements in the financial year 2012 / 2013 with regard to the quality of internal control.

Councillor Brandon noted the section of the report on separation of duties in processing financial transactions. He asked whether anything could be learned through communication with other authorities.

Helen Maneuf said that attempts were being made to identify themes and that organisations had acknowledged the need to consider charges.

Councillor Williams noted that in-year reconciliations between the general ledger and associated feeder systems would be ensured in the future. He asked whether staffing reductions would have an impact in this area.

Helen Maneuf advised that work was on-going to produce a suitable framework which would ensure that all financial matters were kept up-to-date.

The Finance Manager said that this issue had been problematical for various reasons: changes in systems, changes of staff and changes in ways of working. Chances for regular reconciliation had consequently been missed. She added that there had been reconciliation between Revenues and Benefits systems and the income system between Finance systems and the income system during the year; reconciliation between Revenues and Benefits and Finance, however, had only been achieved at year-end. She anticipated that this work would take place more regularly in the current year once the framework had been established.

Councillor Williams asked how risks associated with ICT would be managed.

The ICT Client Manger answered that terms of reference would be established and that performance would be monitored daily. He added that more detailed reports would be advisable.

Councillor Johnson noted that the Shared Services Joint Committee had included three councillors from WBC and advised that there could be problems of political accountability after restructuring at 1 July 2013.

RESOLVED –

that the contents of the annual internal audit report be noted.

## 8 **INTERNAL AUDIT PROGRESS REPORT**

Helen Maneuf introduced the report on Internal Audit Progress and proffered significant information on the individual reports, recommendations and performance.

Councillor Brandon noted that there was a degree of backlog from 2012 / 2013 and asked for an indication of the effect this would have on 2013 / 2014 figures.

Helen Maneuf agreed that the Benefits and the Collections reports had not been finalised; the Senior Auditor advised that he had asked the Head of Revenues and Benefits for an update and that the collections report was almost completed.

Helen Maneuf advised that provision for completion had been noted in Appendix A (page 138) and noted that there would always be some degree of 'give'.

In reply to a further question from Councillor Brandon, Helen Maneuf said that an IT review had not been formally commissioned but that she would speak with the ICT Client Manager on this matter.

Councillor Brandon expressed concerns with regard to the installation of smart meters for recordings on bills.

The Senior Auditor agreed to advise by email when the meters had been installed.

**ACTION:** Senior Auditor.

Councillor Khan drew the meeting's attention to the risk assessment for IT back-up and disaster recovery. He noted that the deadline for high priority IT issues, originally May 2013, had slipped to December 2013.

The ICT Client Manger assured Councillor Khan that data would be completed by the amended date. He added that disaster recovery and business continuity measures had been improved and steps had been taken to mitigate risk.

The Chair agreed to speak with the Portfolio Holder for Democracy and Governance to ascertain that he was fully aware of the situation

**ACTION:** Councillor Brown

**RESOLVED –**

1. that the Internal Audit Progress Report be noted.
2. that the implemented recommendations (Appendix B) be removed

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## **PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

Helen Maneuf introduced the report on standards which, she explained, had been in force since 1 April 2013 and had been built on the CIPFA Code of Practice. She added that it was now a requirement to produce an annual report and a statement of non-compliance. She drew attention to Appendix B which itemised areas of non conformance with Public Sector Internal Audit Standards and possible actions to be taken.

Councillor Brandon noted that only the Deputy Chief Executive of HCC could approve all decisions regarding performance evaluation. He considered that accountability was consequently somewhat 'weak' and should be formalised.

Helen Maneuf referred to page 203 of the report and said that this was not considered a significant issue. She noted, however, that actions included the proposal that the Deputy Chief Executive offer opportunities for Audit Committee chairs to feed in views to inform performance appraisal. She added that chairs may wish to initiate consultation in order to participate in the process; this was a new requirement for all authorities.

RESOLVED –

1. that the contents of the report be noted.
2. that the PSIAS be adopted as from 1 April 2013
3. that Members accept the SIAS Audit Charter as part of compliance with the Public Sector Internal Audit Standards 2013

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## **ANNUAL GOVERNANCE STATEMENT 2012/13**

The Head of Strategic Finance introduced his report on the Governance Statement for 2012 / 2013 and drew attention to the key challenges and risks currently facing the Council. He confirmed that corporate governance would ensure that there would be adequate scrutiny of the joint authorities.

Councillor Khan pointed out that the Annual Governance Statement 2012 / 2013 was a draft document. This was noted by all Members present.

Councillor Brandon noted that there were significant governance issues in connection with the Health Campus and Charter Place but that the Croxley Rail Link had not been included. He advised that there was potential risk involved in this project and also in work in Ascot Road and the Parade in the town centre.

The Head of Strategic Finance said that he would readily expand the statement to include these initiatives.

Councillor Johnson drew attention to the section of the report on Performance Monitoring and noted that the Major Projects Board had met only twice in the municipal year 2012 / 2013.

Councillor Brandon said that meetings had been cancelled as there had been relatively little progress. He believed, however, that councillors should be kept up to date even where there had been no progress. He advised that the committee should meet quarterly.

RESOLVED –

that the draft annual Governance Statement 2012 / 2013 be noted.

## **TREASURY MANAGEMENT UPDATE**

The Committee received a report of the Head of Strategic Finance. He explained that the central banks had 'flooded' the market with liquidity and that this would inevitably affect the rates of interest the Council could obtain. He cautioned that circumstances could worsen and that the situation was volatile.

The Head of Strategic Finance explained that the Co-operative Bank, with whom WBC banked, was currently selling some assets to meet unforeseen debts. He advised that Watford's investments in the Co-op bank were relatively low: £60,000 at the time the report had been compiled. He further explained that WBC could not change to another bank and that the Co-op had indicated that the situation would have improved by April 2014.

The Head of Strategic Finance then advised on WBC's current investment strategy. He drew attention to the table at section 5.3 of the report which indicated rates for other banks. He noted that the Debt Management Office (DMO) had remained at 0.25% whereas Barclays were currently offering 0.3%. He advised, however, that the DMO was guaranteed by the Government and it was considered unwise to risk transferring to other banks with marginally higher rates.

The Head of Strategic Finance said that the Council's finances were currently conservatively managed but that the new Director of Finance could change the strategies.

Councillor Brandon asked what effect the 10% reduction to local government grants would have and what expectation there was of currency revaluations.

The Head of Strategic Finance advised that the Stock Market would be affected due to adjustments to the values of other currencies. He noted in particular the 30% adjustment to the value of the Japanese yen.

With regard to the 10% reduction, the Head of Strategic Finance said that he had not had a chance to acquaint himself with the details of this change. He advised that a comprehensive review would be available in September 2013.

**RESOLVED –**

that the report be noted

## **PRE AUDIT STATEMENT OF ACCOUNTS**

The Committee received a report of the Head of Strategic Finance who stated his appreciation of the work of both the Finance Manager and the Senior

Accountant in producing the statement. He advised that comments had been received from Grant Thornton which would be incorporated in the final Statement.

The Head of Strategic Finance noted adverse sections of the budget. These included additional Revenues and Benefits costs which included reduced income from court costs and an increase in staffing costs. He acknowledged that this Division did not currently demonstrate top quartile performance but that there were several mitigating factors.

The Head of Strategic Finance then noted significant positive aspects of the report:

- Significant savings had been made across the board
- Reserves were increasing
- An ad hoc, voluntary payment of £750k had been made into the Pension Fund

The Head of Strategic Finance said that overall the situation was good and that a further report would be prepared for the next Budget Panel meeting on 10 July 2013.

The Chair added his thanks to the Finance Manger and the Senior Auditor.

Councillor Khan drew attention to the table of termination benefits on page 300 and asked whether the total costs for exit packages were compulsory or discretionary.

Head of Strategic Finance advised that statutory payments for redundancy were: one week for every year of service, which was enhanced using a multiplier of 2.2 to arrive at the discretionary figure.

The Finance Manager advised that the Human Resources Service had provided the figure of £165,302 and had advised that they included the pension requirements. All payments were contractual under current terms and conditions.

Councillor Khan further noted that revenue from investments were lower than last year's figures.

The Head of Strategic Finance reminded Members that 1% interest was good in the current market. He referred to the fact that the investment return was £104k higher than anticipated.

Referring to the table at point 9.5 of the report, Councillor Brandon asked why, for the year 2012 / 2013, there was such a large disparity between the original net budget and the net outturn for the Legal and Property Section.

The Head of Strategic Finance and the Finance Manager explained that the figures were subject to technical adjustments; for example the Revenue Support Grant had made a considerable difference to the Net Outturn.

The Finance Manager expressed the hope that the Statement of Accounts would be fully understood.

RESOLVED –

that the report be noted

The Chair concluded the meeting by noting that this would be the Head of Strategic Finance's final Audit Committee meeting. He thanked him for his hard work over the previous four years and for his clear and informative reports.

Chair

The Meeting started at 7.00 p.m.  
and finished at 9.35 p.m.