

## **AUDIT COMMITTEE**

**30 JUNE 2015**

Present: Councillor I Brown (Chair)  
Councillor T Williams (Vice-Chair)  
Councillors A Khan, B Mauthoor (for minute numbers 1 to 9) and  
S Silver

Also present: Richard Lawson (Grant Thornton),  
Andrew Brittain (Ernst and Young),  
Hannah Ormston (Ernst and Young)  
Councillor Mark Watkin, Portfolio Holder

Officers: Shared Director of Finance  
Head of Democracy and Governance  
Head of Revenues and Benefits  
Head of Assurance, Shared Internal Audit Service  
ICT Client Section Head  
Fraud Manager  
Committee and Scrutiny Officer

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

Councillor T Williams had forwarded apologies advising he would be arriving late.

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

There were no disclosures of interest.

### **3 MINUTES**

The minutes of the meeting held on 11 March 2015 were submitted and signed.

### **4 AUDIT COMMITTEE EFFECTIVENESS**

The Head of Assurance, Shared Internal Audit Service gave a presentation to the Committee on the role and purpose of an audit committee and how effectiveness could be built. She highlighted the basics that could help a committee to be effective. She said that some of the principles could be applied to other committees, including scrutiny.

Councillor Mauthoor said that as she was new to the Committee she would appreciate any training that may be available.

The Chair responded that this was an important area and the matter of training would be referred to when it came to discussing the work programme.

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

The Committee received a report of the Head of Democracy and Governance setting out details of requests made under the Freedom of Information Act 2000 from 1 October 2014 to 31 March 2015.

The Head of Democracy and Governance referred members to paragraph 3.5 of the report which showed a reduction in the percentage of replies responded to out of time; from 24.5% to 11.9%.

The Chair asked about progress on fixing Lagan as referred to in 3.8 of the report.

The ICT Client Section Head explained that the issue with Lagan was the functioning of an electronic form that enabled Freedom of Information requests to be recorded. Capita had advised her of a resolution. An engineer would be tasked to resolve the matter starting on Monday 6 July 2015. She had spoken to the engineer and he believed that the problem could be resolved. The resolution was reliant on one member of staff as there was not a lot of resilience within the Capita team.

Councillor Williams was pleased to see the reduction in the number of delayed responses. He referred to some of the requests referred to in the Appendix to the report and asked for clarification.

The Head of Democracy and Governance advised that some requests were submitted to all councils and not just Watford to see what type of response they would receive. The request for information about councillors as landlords had been responded to on the basis that this information could not be supplied as it was not information that the Council was required to keep. The request about vexatious requests had probably arisen following the results of some litigation with the Information Commissioner. This was not a matter the Council had been involved in. Finally Mr Palmer, an ex-councillor, had submitted requests following a Council meeting.

Councillor Khan commented that Mr Palmer was entitled to submit requests as was every other citizen. He asked officers why there had been such a delay in getting the Lagan problem resolved; the timeframe seemed too long.

The ICT Client Section Head agreed that a resolution had taken a long time. The Council was in a contractual legal process with Capita. Part of the issues were aged requests; Lagan and the FOI forms was one of those requests. Capita had two engineers on whom they were exceptionally reliant, one of whom

was an ex-officer. The officer had contributed to the introduction of Lagan when it had originally been installed. He had tried to schedule in time to resolve the matter but it had proved difficult due to the amount of work he had to do. The matter had been raised with Capita and the company had scheduled the work several times. Previously the engineer had not been able to do the work as when other issues arose he had to stop and resolve them instead.

The Director of Finance confirmed that there had been a lack of resources and resilience at Capita.

Following a question from Councillor Khan, the Head of Democracy and Governance advised that she would check the request about 99 North Western Avenue and forward the information to the Committee.

Councillor Khan noted that in some cases the requestors details had not been supplied. He asked whether the Council was required to respond in those cases.

The Head of Democracy and Governance explained that when the information had been forwarded to the Freedom of Information officer, the originating officer had not provided the details. Many requests were sent to all local authorities assuming that they carried out all functions. A response is recorded even if it was to advise that the request needed to be redirected.

RESOLVED –

1. that the contents of the report be noted.
2. that the requested information be circulated to the Committee.

ACTION: Head of Democracy and Governance

## 6 **OMBUDSMAN'S ANNUAL LETTER**

The Committee received a report of the Head of Democracy and Governance including the Local Government Ombudsman's Annual Review Letter and spreadsheets, which provided details of the decisions that had been made and the complaints the Ombudsman had received.

The Head of Democracy and Governance informed the Committee that out of 17 complaints only five had been investigated and of those only three had been upheld. The Ombudsman had not found the Council responsible for maladministration in any of the cases. She added that all Members should have received information about a toolkit referred to in the Ombudsman's letter.

Councillor Khan noted that the three cases which had been upheld all related to Benefits and Tax. He asked for clarification on these cases.

The Head of Democracy and Governance advised that all three cases had a long history. She explained the background to each case; all having occurred before 2014. There had been a lack of processes and procedures at that time. The Ombudsman had not found the Council to be completely at fault. Following a further comment from Councillor Khan, the Head of Democracy and Governance stated that the Ombudsman did not add 'in part' to their decision.

Councillor Khan said that the explanations indicated that there were issues with change of circumstances and communication. He asked whether processes had been put in place to resolve these issues.

The Head of Revenues and Benefits responded that the service had cleared a massive backlog. Processes had been put in place to respond to Freedom of Information requests in a timely manner. He commented that he was surprised that the number of complaints were as low as they had been reported. However, he was not aware of any complaints currently with the Ombudsman about his service. The service tried to resolve all complaints at stages one and two. At stage two, people were signposted to the Ombudsman if they were still unsatisfied.

In response to Councillor Khan's comment about themes, the Head of Revenues and Benefits considered that he did not believe there was one theme arising from the three cases. He explained that in one case payments were normally offset against the oldest debt. When the resident had asked for the payment to go towards their latest bill this had been done. The bailiff would still have visited the person as they still had the old debt outstanding. The service processed 20,000 changes last year and he could not guarantee that there would be no complaints to the Ombudsman. He preferred to resolve any complaints at stages one and two as quickly as possible.

Councillor Watkin, the Portfolio Holder for Shared Services, said that all processes had changed under the guidance of the current Head of Revenues and Benefits. He acknowledged that there had been three cases upheld, but the Council was not entirely liable. The problems had been spread over a number of years.

Councillor Khan commented that if he received complaints, he would analyse them and consider if there were any patterns which he would try to understand and resolve.

The Chair thanked the Committee for the robust debate.

RESOLVED –

that the Local Government Ombudsman's Annual Review Letter 2015 be noted.

## 7 **EXTERNAL AUDIT PLAN**

The Committee received a report of the Acting Head of Finance Shared Services which included the External Audit Plan prepared by Grant Thornton UK LLP, the Council's appointed external auditors for 2014/15.

Richard Lawson highlighted the sections within the report and the two recommendations which had been rated as low priority.

Following a question from Councillor Khan, the Director of Finance explained that Grant Thornton carried out the auditing for the 2014/15 Financial Year. Ernst and Young was the Council's current auditor, but most of that company's work would be carried out after the end of the year.

RESOLVED –

that the content of the External Audit Plan be noted.

## 8 **REVENUES AND BENEFITS REVIEW**

The Committee received a report of the Head of Revenues and Benefits which provided details of the performance of the Revenues and Benefits sections in 2014/15.

The Head of Revenues and Benefits informed Members that the volume of changes in circumstances had almost doubled since 2012/13, as shown in paragraphs 2.6 and 2.7 of the Appendix to the report. This was in addition to other work imposed on the service, for example data matching. The current direction of travel was positive. He added that Three Rivers District Council and Watford Borough Council were the best performing service in Hertfordshire during the first three quarters of 2014/15.

Richard Lawson commented that when he had first started auditing Watford, the Revenues and Benefits service did not meet deadlines. A great effort had been put into the service since then. This work had a positive impact on the Council's financial resilience.

Councillor Williams noted that the Head of Revenues and Benefits had commented on the challenges to the service including IT. He felt it was important that the service had a stable IT platform to carry out its work.

The Head of Revenues and Benefits advised that between January and March IT had been at its most stable since he had started working for the authorities. He was currently involved in a significant number of IT projects. He attended regular meetings with Capita and it had been agreed to de-prioritise some works to ensure that larger jobs would be completed. If the service lost one hour of processing time, that meant he had 64 members of staff unable to work. He was confident, however, that he had the right team in place.

Councillor Khan asked whether officers were able to provide any details of overpayments, as this information had not been included in the report.

The Director of Finance replied that the information was included in the closure of accounts. The overall figure had been reduced; the total debt provision had reduced.

The Head of Revenues and Benefits added that some benchmarking had been carried out with the other 10 districts in Hertfordshire in relation to overpayments resulting from datamatching with Her Majesty's Revenues and Customs (HMRC). The current amount of overpayments generated in Watford, had been a tenth of those authorities who had responded.

The Fraud Manager commented that the Council had no control over claimant errors or fraud.

Councillor Khan said that previously local authority overpayment errors had been provided to Members. The benchmarking at that time had shown Watford to be one of the worst performing authorities. He said that this information helped him to identify any trends.

In response to a question from Councillor Silver, the Director of Finance informed the Committee that most overpayments would be recovered. If fraud had been clearly identified then that money would not be classed as an overpayment and would be forwarded to the Fraud Manager and his team. She explained that overpayments could be recovered by adding an attachment of earnings or benefits.

Following a further question from Councillor Silver, the Head of Revenues and Benefits said that as processing times improved there were fewer overpayments. In addition the value of each overpayment had reduced, which meant it could be recovered quicker.

Councillor Khan repeated his request for comparisons with other local authorities on overpayments.

**RESOLVED –**

that the performance of the Revenues and Benefits sections for 2014/15 as shown at Appendix 1 to the report be noted.

**ACTION:** Head of Revenues and Benefits

9

## **INTERNAL AUDIT PROGRESS REPORT**

The Committee received a report of the Acting Head of Finance Shared Services which included the Shared Internal Audit Service's progress report.

The Head of Assurance, Shared Internal Audit Service highlighted sections within the report. She advised that two audits had been completed in June and both related to IT. The IT Disaster Recovery had been given a moderate assurance level with two high priority recommendations and one medium. There had been two parts to the IT Operations and Contract Management audit. The Council had been given a substantial assurance for its contract management; however, Capita had been given a limited assurance level for IT operations. This audit also had two high priority recommendations and one medium.

In response to a question from the Portfolio Holder, the Head of Assurance, Shared Internal Audit Service explained that the programme was bespoke to each authority following discussions with managers. There are occasions when similar audits were being carried out at other districts and any shared learning was forwarded to the districts.

Councillor Khan asked officers if they could provide an update on the situation regarding the contract with Capita. He felt the IT operations management were the route of many problems within the Council.

The ICT Client Section Head acknowledged that the IT issues had an impact on users and services. The company had been given a further deadline of 31 July 2015 to complete the remediation activities that had not yet been delivered. She provided Members with the background to the issues and the previous deadlines that had been set. She said that there had been a patchy delivery and she had not received all evidence requested to show the actions had been completed. There had been several changes in the company's management team, including at Managing Director level. Each time there had been a change the ICT Client Section Head, and the Senior Management team, had to build up relationships again. The current team appeared to be committed to altering the company.

The ICT Client Section Head informed the Committee that when the ICT service had been outsourced to Capita 12 officers had been transferred under the Transfer of Undertakings (Protection of Employment) regulations (TUPE) across from the Council. There were very few of those original officers still working on this contract. The company usually reduced the number of engineers at a local level and the majority of work was delivered from a central place, however the centralisation of services had not been completed. When remediation began the Council had agreed not to apply the service credit penalties, however, in the recent letter the Council had stated that it would impose these penalties from 1 August 2015. She added that it had been agreed to continue with the 'Modernise IT' programme at this stage.

Councillor Mauthoor said that every department relied on IT and Capita had failed in its role. She asked whether the Council was looking at other alternatives and why the company had been given so many chances.

The ICT Client Section Head agreed users and departments suffered due to the poor service. She confirmed that the discussion about other alternatives had taken place; however, IT was a high risk and highly complex service. It was potentially easier to get the company to do their work rather than change. If the

Council terminated the contract with Capita, it would be necessary to consider the alternatives. Most of the officers TUPE'd over to Capita had been made redundant by the company and were therefore not available to come back to the Council. The gaps in Capita's local documentation and local knowledge would have to be filled and this would require specific resources to be brought in to deliver that. The current preferred option was to try to make the contract work and turn it around with Capita, however, it was not happening quickly enough.

The Director of Finance advised that part of the reason IT was so bad was due to the lack of investment by the Council prior to the outsourcing. The Council had transferred a failing service. Outsourced Services Scrutiny Panel was monitoring the service and contract and had required Capita to attend twice and answer questions. The company had accepted it was not delivering the required service. It was not an easy option to break the contract, but the Council was getting close to making a decision as to whether it should stay or break it.

Councillor Silver noted that the deadline had been changed on three occasions. He asked who had made the decision to move the deadline.

The ICT Client Section Head explained that officers had seen some progress. The company had added additional resources and had completed some of the work. There had been sufficient work to allow an extension. Part of the difficulties had been the changes of staff.

Councillor Silver questioned whether the initial progress had continued and whether officers expected it to carry on.

The ICT Client Section Head confirmed that she had seen a continuation of the progress, but the work was not close to being completed.

Councillor Khan noted the officers comments about the company's regular changes at senior management level. He had the impression that the Council had been giving the company the benefit of the doubt. He asked officers if they could state what would be the 'last straw'. He felt the Council should break the contract immediately.

The Director of Finance advised that as the Council was in a contractual remedial process with the company that work needed to be completed. At the end of July a formal decision would be made.

Councillor Khan noted the recommendations listed for the Vinci contract. He asked whether any area had given internal audit any concerns.

The Head of Assurance, Shared Internal Audit Service stated that she had been happy with the replies provided by the relevant officers.

Councillor Williams noted the recommendation for Risk Management. He had understood this was working well. Members had received reports and copies of the Risk Register. He asked where the process was failing.

The Head of Assurance, Shared Internal Audit Service explained that when a risk had been identified, officers had been asked to provide more detail. An extension had been granted until September.

RESOLVED –

1. that the Internal Audit Progress Report against the 2014/15 Audit Plan be noted.
2. that amendments to the Audit Plan as at June 2015 be approved.
3. that the removal of the implemented recommendations be agreed.
4. that the changes to the implementation date for 19 recommendations, as set out in paragraph 2.6 of the report for the reasons set out in Appendix 4, be agreed.

10

## **INTERNAL AUDIT ANNUAL REPORT**

The Committee received a report of the Acting Head of Finance Shared Services which included the Shared Internal Audit Service's Internal Audit Annual Report for 2014/15.

The Head of Assurance, Shared Internal Audit Service highlighted elements of the Annual Report. In response to a question from Councillor Khan about National Non-Domestic Rates (NNDR). Members were referred to the previous report. There had been a number of recommendations and many of them had been implemented during the year. When this was reviewed in the next year there would possibly be an improvement in the level of assurance.

The Director of Finance added that new processes had been put in place, the performance indicator for recovery had improved and new bailiff contracts had been agreed for NNDR, Council Tax and Housing Benefits.

RESOLVED –

1. that the contents of the annual Internal Audit Annual Report and the Assurance Statement be noted.
2. that the Committee acknowledges the assurance from management that the scope and resources for internal audit were subject to no inappropriate limitations in 2014/15.
3. that the results of the self-assessment, as required by both the Public Sector Internal Audit Standards and the Quality Assurance and Improvement Programme, be noted.
4. that SIAS Audit Charter be accepted.

11 **FRAUD ANNUAL REPORT**

The Committee received a report of the Fraud Manager informing Members of the work of the Fraud Section for the financial year 2014/15.

The Fraud Manager highlighted some of the work carried out by the team over the year, including tenancy fraud and blue badge fraud. He also reported on the transfer to the Single Fraud Investigation Service which was due to take place in December 2015.

RESOLVED –

that the contents of the report be noted.

12 **ANNUAL GOVERNANCE STATEMENT 2014/15**

The Committee received a report of the Acting Head of Finance Shared Services which included a draft of the Annual Governance Statement that would be included in the Draft Statement of Accounts.

The Director of Finance highlighted the significant governance issues which had been included in the Annual Governance Statement. They all related to IT. She asked Members to contact her if they felt there were any other significant issues that needed to be included in the statement.

RESOLVED –

1. that the Annual Governance Statement attached as Appendix 1 to the report be approved.
2. that, subject to any changes required prior to their signing, the Annual Governance Statement be included in the Statement of Accounts for 2014/15.

13 **TREASURY MANAGEMENT**

The Committee received a report of the Finance Officer which included the Annual Treasury Management Report and Prudential Indicators for 2014/15.

The Director of Finance highlighted some of the key points in the report. She said that the Council had complied with its strategy and as Members were aware interest rates remained low.

RESOLVED –

that the report be noted.

**DRAFT STATEMENT OF ACCOUNTS FOR 2014/15**

The Committee received a report of the Acting Head of Finance Shared Services. The draft Statement of Accounts for Watford Borough Council was circulated separately.

Members were informed that the Statement of Accounts would not be formally approved by the Committee until it had been audited. The final fully audited accounts would be presented to Audit Committee for approval at the September meeting.

The Chair said that if Members had any questions they could raise them with the Director of Finance after the meeting.

RESOLVED –

1. that the Committee to seek any clarification it needs concerning the Draft Statements of Accounts for 2014/15.
2. that the Committee confirms that it is satisfied that the accounting policies adopted are the most appropriate.

**COMMITTEE WORK PROGRAMME**

The Committee received a report of the Acting Head of Finance Shared Services asking Members to review the work programme and consider which topics it would like included at future meetings.

The Director of Finance informed the Committee that North Herts District Council had suggested arranging a training session on the 'Effectiveness of Audit Committee', through CIPFA. Currently the authority was asking if other authorities were interested in participating in the session. Dates had yet to be agreed but it was likely to take place prior to September. She outlined some of the Audit Committee work it would cover, including what to look for in Statements of Accounts.

Following a discussion it was agreed that North Herts District Council should be advised that Watford's Audit Committee was interested in the training.

Councillor Khan said that he had attended a training course at Dacorum Borough Council which had been very interesting. It had included questioning skills and how to look for evidence.

The Director of Finance advised that the proposals put forward by CIPFA appeared to cover these areas, but if there were other matters to be covered another session could be arranged.

Councillor Williams asked if the Risk Register could be presented to the Committee in September. This would tie in with the Internal Auditors deadline.

RESOLVED –

1. that the work programme be amended to include the Risk Register in September
2. that North Herts District Council be advised that Watford Borough Council's Audit Committee is interested in the proposed training session.

ACTION: Director of Finance and Committee and Scrutiny Officer

Chair

The Meeting started at 7.00 pm  
and finished at 8.55 pm