

AUDIT COMMITTEE

14 MARCH 2016

Present: Councillor I Brown (Chair)
Councillor T Williams (Vice-Chair)
Councillors A Khan, B Mauthoor and S Silver

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

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

32 APOLOGIES FOR ABSENCE/COMMITTEE MEMBERSHIP

Richard Lawson gave apologies from Paul Dossett, from Grant Thornton.

It was noted that Councillor Khan had sent a message advising he would be arriving late.

33 DISCLOSURE OF INTERESTS (IF ANY)

There were no disclosures of interest.

34 MINUTES

The minutes of the meeting held on 14 December 2015 were submitted and signed.

35 VALUE FOR MONEY - CODE OF AUDIT PRACTICE 2015

The Committee received a presentation from Andrew Brittain, who represented Ernst and Young (EY), the Council's new auditor. The presentation set out the value for money conclusion and how it was changing. He explained that the National Audit Office had taken on the code and provided guidance. There were some subtle changes that had been introduced. Previously there had been two criterion but this had changed to one, as shown on the second slide. Three sub-criteria had been added and the descriptions were known as 'Proper Arrangements'; these were shown on the third slide. The newest addition

related to working with partners and other third parties. There was no additional burden on councils. The presentation then outlined the auditor's risk assessment and how it was carried out. He explained that the work had to be proportionate, but sufficient to ensure the auditor could be clear on the conclusion.

Councillor Mauthoor enquired whether the Council's external auditor looked at the audit reports of the Council's partners providing outsourced services; including whether the company was viable.

Andrew Brittain explained that the external auditor looked at the arrangements the Council had in place with those companies and how it worked with them. The audit was related to the process rather than the financial aspects.

RESOLVED –

that the presentation and update be noted.

36

RIPA (REGULATION OF INVESTIGATORY POWERS ACT)

The Committee received a report of the Head of Democracy and Governance which informed the Committee on the Council's use of the Regulation of Investigatory Powers Act (RIPA) during 2015.

The Head of Democracy and Governance reported that the Council had not made any applications to the Magistrates or used NAFN in 2015. She advised that there were also notifications of changes to the authorised signatories.

Following a question from Councillor Silver about the use of the powers by other authorities, the Head of Democracy and Governance commented that since the changes to the Act requests for authorisation had reduced significantly. The changes had restricted the reasons councils could use RIPA. She was unaware whether Three Rivers made any more applications than Watford. Collectively across Hertfordshire officers had not indicated that that had needed to regularly use the powers.

RESOLVED –

that the contents of the report be noted.

37

CORPORATE RISK REGISTER

The Committee received a report of the Head of Democracy and Governance incorporating the Council's Corporate Risk Register, which was presented annually to Members.

Councillor Silver noted that in the 'Consequences' column for the Metropolitan Line Extension (MLX) objective, there was a spelling error; 'effect' had been

spelt incorrectly. He then referred to the Health Campus and the comments about the effect on the financial viability of the scheme. He asked whether it was tied into the redevelopment of the hospital or a new hospital.

The Head of Democracy and Governance commented that the risk register related to the potential risks for Watford Borough Council and not the improvement of the hospital. When compiling the risk register, officers had to envisage the worst case scenario and include it on the register.

Councillor Watkin advised that in his role as the Portfolio Holder for Democracy and Governance, he discussed the register with the Head of Service; therefore there was some Member scrutiny through the year.

RESOLVED –

that the Corporate Risk Register be noted.

38 **CERTIFICATION WORK**

The Committee received a report of the Head of Finance (Shared Services) including the annual certification work letter from the Council's external Auditor, Grant Thornton UK LLP.

Richard Lawson circulated an updated certification letter, as it had been amended and the fee agreed. He put the letter into context, explaining that up to 40% of the councils across Hertfordshire would receive a qualified claim. If the reconciliation were out by one pence per week a review would have to be carried out. He informed Members that the letter should have been signed by 30 November, however it had not been completed until 29 February. The reason for the delay had been due to the downtime of the Housing Benefit system, which had an effect on the review. The issues arising from the auditor's work were included in the letter. He advised that a similar letter had been issued to Three Rivers District Council.

The Portfolio Holder assured the Committee that the Housing Benefit system was running stably. The inherent problem had been found and fixed. He was aware that the problems had affected the auditor's access and ability to do the required work.

RESOLVED –

that the contents of the revised certification work letter be noted.

39 **EXTERNAL AUDIT - AUDIT PLAN**

The Committee received the Audit Plan from EY, setting out details of the auditor's responsibilities and the scope for the 2015/16 audit.

Hannah Ormston, from EY, highlighted aspects of the report. She explained that where required, specialist auditors would be used. The auditors were currently onsite carrying out some interim audits. She pointed out that the fee had been reduced from the previous year; in accordance with the fee schedule following the closure of the Audit Commission.

The Portfolio Holder asked whether the plan was similar to the previous one provided by Grant Thornton.

Andrew Brittain advised that both auditors operated under the same code. They made use of proprietary tools.

The Portfolio Holder acknowledged that local authorities were required to change their external auditors from time to time.

RESOLVED –

that the Audit Plan from EY be noted.

40

EXTERNAL AUDIT - LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING

The Committee received the 'Local government audit committee briefing'. Andrew Brittain informed Members that the briefing was produced on a quarterly basis and included links to further useful information. The report highlighted changes to the accounts and audits deadlines for 2017 and the acceleration of the completion of accounts to 31 July. He was aware that both local authorities were already thinking about the changes and the possibility of need to amend the governance arrangements and committee timings.

Following comments by the Chair and Councillor Silver about future committee dates, the Head of Finance (Shared Services) advised that part of the preparations involved engaging early with the external auditor. He suggested that the committee held in June may need to be moved to July in order to agree the completed accounts. The draft accounts would need to be ready by the end of May. The pressure was not only for the councils' accountancy team but also for the external auditor.

Councillor Silver asked whether Members would get the opportunity to see the draft accounts.

The Head of Finance (Shared Services) informed the Committee that it would depend on meeting deadlines. Audit Committee was not required to sign off the draft accounts. Officers would submit the completed accounts to the Committee for consideration. It was intended to provide member training on the accounts procedure prior to the Committee being required to sign them.

Councillor Williams suggested that it would be useful to have a meeting in June, which would allow Members to have an opportunity to ask questions before they were required to approve the final accounts.

RESOLVED –

that the briefing be noted.

41

INTERNAL AUDIT PLAN 2016-17

The Committee received a report of the Head of Finance (Shared Services) including the Shared Internal Audit Service's draft 2016/17 audit plans for Watford Borough Council and Shared Services.

The Audit Manager for the Shared Internal Audit Service outlined some of the key points in the plans.

The Portfolio Holder noted the reference to Shared Services. He stated that in recent years this term had changed. Previously the Joint Shared Services Committee had monitored the Shared Services. The current arrangement was a Lead Authority model, where one authority acted as the provider of the service and the other was the client. He suggested that the title of the Shared Services Internal Audit Plan should be amended to reflect this.

The Audit Manager acknowledged the Portfolio Holder's comments and said that he was happy to make the changes.

The Portfolio Holder suggested that it might be useful to speak to the Director of Finance, Section 151 Officer, and ask her for the most appropriate title.

The Audit Manager agreed that he would speak to the Director of Finance and Head of Finance (Shared Services) and then inform the Committee of the revised name.

Councillor Khan noted the contents of the plan and asked who was consulted by internal Audit.

The Audit Manager explained that Internal Audit consulted the Heads of Service and their teams. Areas of risk were considered within these discussions, including those from operational and strategic risk registers. Discussions also took place with the Director of Finance and Head of Finance in his role as Audit Champion. The draft plan was provided to the Council's Leadership Team for discussion and approval prior to submission to Audit Committee. In addition Internal Audit included its own proposals based on risks seen in other authorities, joint reviews being conducted with other authorities and based on horizon scanning exercises for local government.

In response to a question from Councillor Khan about Member involvement, the Audit Manager said that officers were happy for Audit Committee to make contributions. Any suggestions would be discussed with the relevant officers.

Councillor Silver said that he agreed with Councillor Khan's comments. He had noted that 12 days had been allocated to an audit on 'Museum Exhibits', whereas only 10 days had been allocated to 'Housing Allocations'. In his opinion housing was more important than museum exhibits.

The Audit Manager explained that an audit on housing allocations was a review, carried out periodically in most councils with a well established programme of work. The area was traditionally well controlled and subject to regular review. With regard to the museum audit, there were concerns about the transfer of artefacts to new sites. As the area had not been covered before it was likely to take longer and would then not be repeated for several years.

The Head of Finance (Shared Services) commented that the Museum audit had been requested by officers. The plan was developed with the Internal Audit team, with suggestions fed back to him by Leadership Team. The aim was to ensure the proper use of Council Taxpayers' money. He informed the Committee that a reserve list was compiled and items could be added. Reviews often took less time than had been estimated and it was then possible to add extra audits into the plan.

The Audit Manager added that occasionally some audits did not proceed which meant that other audits could be undertaken. It was also noted that a contingency budget existed, which could be utilised to address the need for additional projects in the year or any Member suggestions for audit work. The Audit Plan also took account of other sources of assurance, e.g. external audit, consultants, peer reviews, seeking not to duplicate this work in the internal audit plan.

Councillor Khan commented that he felt there needed to be more democratic scrutiny. Councillors were the ones held responsible, as they were elected by the people. He questioned whether Executive Councillors should have a role.

The Portfolio Holder responded that it was for Audit Committee to undertake the role suggested by Councillor Khan. He considered it to be inappropriate for the Executive Members to be involved. This was a tool to monitor the Council and should be an open process.

Councillor Khan responded that concern would be raised if the Executive suggested something should not be audited. However, the Executive may identify areas suitable for auditing. He stressed that Members should be included.

Councillor Silver suggested that the Executive could make representations to Audit Committee for inclusion in the Plan. He added that it might be useful to include reasons why special items had been included in the list of proposed reviews.

Councillor Mauthoor said that she agreed with the previous comments and that it was useful for the Committee to be more involved before the final list had been compiled. She questioned whether currently there were sufficient meetings to enable this to happen or if information could be emailed to the Committee. She asked whether it would be possible to add funeral arrangements to the list as the service was being outsourced to an external company.

The Head of Finance (Shared Services) responded that if the decision to outsource the funeral arrangements was to be made, it would be subject to call-in and the decision could be scrutinised.

Following a question from Councillor Silver about the detailed scopes of reviews, the Head of Finance (Shared Services) informed Members that the Plan would be presented at future meetings. Officers would ensure that any changes were highlighted in the report.

The Audit Manager advised that a number of days were being held for IT, as the service provision beyond June had still to be decided. He added that he was happy to keep Members informed of any further information about forthcoming reviews.

Councillor Mauthoor asked for clarification of the differences between Internal Audit and External Audit.

The Audit Manager explained that Internal Audit reviewed internal control, risk and governance. External audit was responsible for auditing the financial statements and any areas that may have contributed to a material misstatement of the financial statements, as well as value for money reviews and grant certification work.

Andrew Brittain advised that External Audit reviewed financial statements, how operations were affected, value for money and grants. There maybe times that there appeared to be some overlap, but the two teams would be looking at different aspects.

The Audit Manager assured the Committee that the two services worked together and tried to avoid duplication.

The Head of Finance (Shared Services) stated that Internal Audit's work showed whether the Council was carrying out its processes properly.

RESOLVED –

that the Watford Borough Council and Watford and Three Rivers Shared Services Internal Audit Plans for 2016/17 be approved.

INTERNAL AUDIT PROGRESS REPORT

The Committee received a report of the Head of Finance (Shared Services) and the Shared Internal Audit Service's Audit progress report.

The Audit Manager highlighted some of the key points in the report and provided updates on the performance indicators, as it had been two weeks since the Committee reports were published. He advised that a further three final reports had been issued, that the target for billable days of 95% had been achieved and that the target for delivery of projects to draft report was further advanced as two more drafts had been issued.

The Head of Finance (Shared Services) advised that some of the IT recommendations from 2010/11 may possibly be obsolete. Before the next meeting officers would review the recommendations and decide which ones had been superseded. The Committee's agreement would then be requested to remove those recommendations from the report. If officers considered the recommendations to still be valid they would remain until completed.

In response to a question from Councillor Khan about the IT recommendations, the Head of Finance (Shared Services) explained that the current contractor had been disengaged. The Managing Director and Director of Finance were working on a settlement figure. He informed Members of some of the current work planned or taking place.

The Portfolio Holder added that the Partnerships and Performance Section Head had produced a report setting out the direction of travel. He would contact the officer and ask if it could be circulated to Members.

Following a question from Councillor Khan, the Portfolio Holder advised that Watford's Cabinet would be making the decision regarding future arrangements.

Councillor Khan stated that he had been a member of the Joint Shared Services Committee, which had made the original decision. Members needed to be involved in the process. He questioned whether scrutiny had been part of the decision process.

The Committee and Scrutiny Officer responded that she was not aware of any scrutiny involvement in the original decision. She reminded Members that when the decision about future arrangements was to be made, if it were a key decision it would be open for call-in.

Following comments about two recommendations from 2014/15 related to Benefits, the Head of Finance (Shared Services) responded that the Head of Revenues and Benefits had been busy ensuring the service was on track and delays were limited. He acknowledged that Members were concerned that the deadlines had passed and that no responses had been received.

Councillor Williams asked that a response was requested and then circulated to the Committee.

Councillor Silver referred to the Safeguarding audit and noted that one of the recommendations had the priority 'merits attention'. It was also noted that the report had been given moderate assurance.

The Audit Manager advised that eight of the recommendations had been given a 'medium' priority and the ninth one 'merits attention'. This was one of the more prominent audits carried out during 2015/16 and provided a forward looking gap analysis in response to the Rotherham Report and other guidance emerging from similar safeguarding experiences at other councils. As a final audit report, it was publicly available.

Councillor Mauthoor asked that the final report be circulated to the Committee.

The Portfolio Holder said that as a County Councillor he endorsed a review of the Child Sexual Exploitation policy.

The Audit Manager said that the service had carried out similar audits in five Hertfordshire authorities. It had also looked at the relationship with the County Council, which had the larger role.

Councillor Silver noted that recommendation eight had been issued in November but the deadline was not until June 2016. He felt this was too long on such an important issue.

The Committee was advised that the subject would be included on scrutiny as soon as possible.

The Committee and Scrutiny Officer informed the Committee that an all-member briefing on Child Sexual Exploitation and other matters was due to take place before the Community Safety Partnership Task Group on Tuesday 22 March. She would also be discussing Overview and Scrutiny Committee's work programme with the Head of Community and Customer Services and whether an item could be included at the June meeting.

RESOLVED –

1. that the Internal Audit Progress Report against the 2015/16 Audit Plan be noted.
2. that amendments to the Audit Plan as at March 2016 be approved.
3. that the removal of the implemented recommendations be agreed.
4. that the changes to the implementation date for 21 recommendations (paragraph 2.6 of Appendix 1) for the reasons set out in Appendix 3, be agreed.

43

CHANGES TO ACCOUNTING POLICIES - 2015/16 ANNUAL STATEMENT OF ACCOUNTS

The Committee received a report of the Head of Finance (Shared Services) setting out any changes to the Council's accounting policies. The Head of Finance (Shared Services) commented that there were no significant policy changes to be implemented in 2015/16. Officers had reviewed the policy and made some minor changes in line with the CIPFA code. The changes had been included in italics within the document.

The Head of Finance (Shared Services) confirmed that a similar report would be presented to Three Rivers District Council.

In response to a question from Councillor Williams, Hannah Ormston commented that the policy complied with the code. The External Auditors had made some minor suggestions.

RESOLVED –

that the changes to the Council's accounting policies be noted.

44

WORK PROGRAMME

The Committee received a report of the Head of Finance (Shared Services) setting out the Committee's work programme for the next four meetings.

The Head of Finance (Shared Services) informed the Committee that the provisional programme was subject to change. He had noted that the previous versions of this report showed the next two meetings and he had taken the decision to expand this to the next four meetings. The discussion topics were available for inclusion.

Councillor Williams noted that the six-monthly Freedom of Information report had not been included in the reports for December. He suggested that this item could be added if the reports were still covering the same time period.

RESOLVED –

that the work programme for the next four meetings be agreed and amended as suggested.

45

COUNCILLOR IAN BROWN

Councillor Williams said that he understood that Councillor Brown was retiring as a Councillor.

Councillor Brown said that he had been a Councillor since 1983, with a gap of only one year during that time. He had chaired the Audit Committee since its

first meeting on 3 November 2005. He wished to thank all the officers and Councillors who had taken part in the meetings. There had been some lively discussions during that time. He also wished to thank the External and Internal Auditors for their hard work.

Councillor Williams said that on behalf of the Committee he wished to thank Councillor Brown for his time on the Committee.

Chair

The Meeting started at 7.00 pm
and finished at 8.35 pm