

AUDIT COMMITTEE

27 June 2016

Present: Councillor D Scudder (Chair)
Councillor T Williams (Vice-Chair)
Councillors S Cavinder, Asif Khan and B Mauthoor

Also present: Andrew Brittain (Ernst and Young)

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

1 Apologies for Absence/Committee Membership

Apologies for absence were received from Hannah Ormston (EY).

2 Disclosure of Interests (if any)

There were no disclosures of interest.

3 Minutes

The minutes of the meeting held on 14 March 2016 were submitted and signed.

4 Freedom of Information requests October 2015 - March 2016

The committee received a report of the Head of Democracy and Governance which provided details of the requests made during October 2015 to March 2016.

In response to members' questions, the Head of Democracy and Governance advised that the number of requests were similar to previous half yearly updates. Requests were regularly submitted regarding the number of public health funerals carried out. These requests were often submitted by companies

who would be looking to find heirs for the deceased. She advised that very few public health funerals were organised by Watford Borough Council.

RESOLVED –

that the contents of the report be noted.

5 **Fraud Annual Report**

The committee received a report of the Fraud Manager which informed members of the work carried out by the fraud section during 2015/16.

The Fraud Manager highlighted some of the work carried out by his team. He responded to members' questions. He advised that previously many council tax reduction and housing benefit offences occurred when circumstances had changed and the applicant had not reported the change to the service. More recently the offences were occurring at the initial stage of applications. It was possible this was due to the improvements in data matching; however he could not be certain that this was the reason.

The Fraud Manager explained that his service did not seek to recover non-payment of council tax or business rates. The service did carry out data matching, for example to confirm student exemptions for council tax. In respect of business rates there were very few cases that could be considered to be fraudulent. It was more how people might try to avoid business rates, which his team did not cover. The Fraud Manager and Director of Finance provided recent examples of case law.

RESOLVED –

that the contents of the report be noted.

6 **Audit Committee Effectiveness**

The Audit Manager gave a presentation on the role and purpose of Audit Committees and the characteristics that made for an effective Audit Committee. He set out a model of Audit Committee effectiveness based on an emphasis on relationships and rigour of oversight and explained that often committees were a combination of the four types described in the model. He covered good basics such as a clear terms of reference understood by all Members, Committee membership and diversity, skills and training, scope of work, good administrative support and stressed that member attendance and reading of reports was important. In concluding on what makes an effective Audit Committee, he explained the role and leadership of the Chair, including that they needed to

have good skills, engagement and attitude and should regularly meet key officers and stakeholders in order to develop good working relationships. He also discussed the status of the Audit Committee and the importance of promoting its role and good governance in general. On this idea, he indicated that some Audit Committees conducted annual reviews of their effectiveness, which were then reported to Full Council.

Members noted the value of training sessions and welcomed these opportunities.

RESOLVED –

that the presentation be noted.

7 **External Audit Progress Report**

The committee received a report of the Head of Finance (Shared Services) and the external auditor's Annual Progress Report for 2015/16. The report provided an overview of the stage reached in the 2015/16 audit.

Andrew Brittain advised that since the last meeting he had been on site testing the authority's controls. He thanked officers for their support during this time. The external auditor worked closely with the internal auditor to understand the work they were carrying out. This year the work being carried out by both auditors did not align. During the testing phase no significant issues had arisen but it was necessary to report this information to the committee.

Andrew Brittain advised that, in addition to the risks reported to members at the previous meeting, it was intended to add property valuations to the risk assessment work.

The report included a timetable setting out the key stages of the audit and the progress against it.

In response to a question about IT reliance and general controls, Andrew Brittain explained that this related to eFinancials. It was not specific to the IT contract.

The Head of Finance (Shared Services) informed the Committee that the service was intending to upgrade the eFinancials software.

The Director of Finance stated she was unaware of any previous problems continuing.

It was agreed that the committee would be provided with a copy of the auditor's recommended improvements on IT reliance and details of IFRS13.

Following a question about the delay in the submission of the housing benefit claims and returns, the Director of Finance explained that it had been necessary to check the information and a failure on the virtual server had an impact. This problem had since been fixed. There had not been an issue with the software. The claims and returns had been submitted.

RESOLVED –

that the contents of the External Audit Progress report be noted.

8 **Internal Audit Annual Report 2015/2016**

The committee received a report of the Head of Finance (Shared Services) and the Head of Assurance for Internal Audit, which provided details of the service's work during 2015/16 and gave an opinion on the adequacy and effectiveness of the Council's internal control environment.

The Audit Manager highlighted some of the key points contained in the report. The assurance opinion for non-financial systems was 'moderate'; this was solely due to the issues with IT. This was further explained in section 3.5 of the report.

The Chair commented that it was a good report but the council was held back by IT, which was a common theme throughout the agenda.

The Audit Manager assured the committee that a 'moderate' opinion was considered to be reasonable.

RESOLVED –

1. that the content of the annual internal audit report and the annual assurance statement be noted.
2. that the assurance from management that the scope and resources for internal audit were subject to no inappropriate limitations in 2015/16 be acknowledged.
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 the SIAS Audit Charter be accepted.

Internal Audit Progress Report 2015/16

The committee received a report of the Head of Finance (Shared Services) and the Shared Internal Audit Service's Audit progress report which, amongst other things, set out the progress made in implementing audit recommendations.

The Head of Finance (Shared Services) informed the committee that at the last meeting he undertook to review the recommendations related to IT and consider whether any could be deleted. He discussed the recommendations and comments with the Audit Manager and it was recognised that given the period of time that had elapsed since the reports were originally published, the changing status of IT service delivery at the Council and the constantly evolving digital landscape, that many of the previous comments and actions, while sound in principle, were now largely out of date and /or no longer relevant.

It was concluded that the management comments and actions would be removed. The information was still available in previous reports to the committee. The original recommendations would be re-tested during the first IT audit of 2016/17.

In response to a question about IT, the Director of Finance advised that it was not intended to refresh the IT strategy, but under this was a technical strategy. It was recognised the council needed to work more flexibly within the digital landscape. The council was moving forward but it had been recognised that there were a number of applications which would not work on newer versions of Windows. She explained some of the planned upgrades which would be taking place.

It was agreed that Internal Audit's reports on Budget Monitoring and Cemeteries would be circulated to the committee.

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.

10 **Annual Governance Statement**

The committee received a report of the Head of Finance (Shared Services) setting out the Annual Governance Statement which would be included in the Draft Statement of Accounts.

RESOLVED –

1. that the Annual Governance Statement, attached as Appendix 1 to the report, be approved.
2. that the Annual Governance Statement be included in the Statement of Accounts for 2015/16.

11 **Draft Statement of Accounts report**

The committee received a report of the Head of Finance (Shared Services) including the draft Statement of Accounts which had been circulated separately. The report allowed members to review the draft statement prior to the final report being presented for approval in September.

Following a comment about the number of variances related to planning, the Director of Finance explained that some of this related to the upgrade to the Atrium software. Also there had been an increase in the need for agency staff.

RESOLVED –

that the committee confirms it is satisfied that the accounting policies adopted are the most appropriate.

12 **Treasury Management Annual Report 2015/16**

The committee received a report of the Head of Finance (Shared Services) which included the annual Treasury Management Report and prudential indicators for 2015/16.

The Head of Finance (Shared Services) highlighted the average rate of return achieved by the council, which was 0.70%. This reflected the current market. Plus the council was generally averse to risk. If there were any spare capacity then the council look at further property investment.

Members commented on the referendum result and the decision to leave the European Union. They felt the rate of return may reduce further. They questioned whether the council invested in any European banks.

The Director of Finance advised members that the investment strategy did not allow the council to invest in overseas banks. The council invested in the highest rated British banks.

The Head of Finance (Shared Services) advised that the highest rated bank in the UK was HSBC, however the requirements set out by the bank were not acceptable to the council. Following the referendum result the markets were beginning to balance.

Following a question about the use of capital for revenue spend, the Head of Finance (Shared Services) explained that under the last settlement it had been agreed that councils could use capital receipts realised in-year to meet the costs of restructuring.

The Director of Finance added that she would advise the council and in her opinion she would recommend spending revenue and not capital receipts. Ultimately it would be a council decision.

RESOLVED –

that the report be noted.

13 **Committee Work Programme**

The Committee received a report of the Head of Finance (Shared Services) setting out the Committee's updated work programme for 2016/17.

Following a request from Councillor Khan it was agreed to add 'emerging risks' to the work programme for September.

RESOLVED –

that the updated work programme be agreed and amended as suggested.

14 **External Auditor's Annual Audit Fee Letter 2016/17**

The Chair agreed that the External Auditor's Annual Audit Fee Letter could be submitted as a late item. The report provided the indicative audit and certification fees for 2016/17. It was explained that the fee was later adjusted according to the length of time taken to carry out the work.

RESOLVED –

that the annual external audit fee for 2016/17 be noted.

Chair

The Meeting started at 7.00 pm
and finished at 8.20 pm