

AUDIT COMMITTEE

29 June 2017

Present: Councillor D Scudder (Chair)
Councillor J Johnson (Vice-Chair)
Councillors Ahsan Khan, B Mauthoor and T Williams

Also present: Eli Johns (EY)
Andrew Brittain (EY)

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

1 Apologies for Absence/Committee Membership

There were no apologies for absence.

2 Disclosure of Interests (if any)

There were no disclosures of interest.

3 Minutes

The minutes of the meeting held on 16 March 2017 were submitted and signed.

4 Freedom of Information Act Requests October 2016 to March 2017

The committee received a report of the Head of Democracy and Governance which included details of the requests for information under the Freedom of Information Act for the period from 31 October 2016 to 31 March 2017.

The Head of Democracy and Governance explained the information contained in the report. She advised that an additional section had been included which showed those requests which did not relate to Watford Borough Council, but to Herts County Council or other organisations. There was a small increase in the number of requests from the last half-yearly report. Email addresses had been

removed from the report as she was concerned about people's data protection rights.

The Head of Democracy and Governance stated that she had been concerned about the lack of information from ICT and their responses to requests. The new Head of Service had been informed and he would ensure that requests were recorded, dealt with and added to the system.

RESOLVED –

that the comments of the report be noted.

5 Fraud Annual Report

The committee received a report of the Fraud Manager which informed members of the work the Fraud Section had carried out during 2016/17.

The Fraud Manager explained that officers considered whether to caution an individual or prosecute depending on the financial implications of the fraud. There was a policy setting out financial limits, but the service was not tied to this. They also took into account the seriousness of the fraud and the public interest factor.

The Fraud Manager advised that the monetary value of the fraud cases which had been completed during 2016/17 was slightly less than the previous year. He informed councillors that this could vary as it was affected by the complexity of the cases under investigation. The recovery of any funds was handled by the Sundry Debts and Recovery teams. He agreed to provide councillors with the current recovery rates.

Following a question about data matching, the Fraud Manager stated that there was a software programme that compared all the data available and then highlighted potential cases.

The Head of Finance (Shared Services) added that it was impossible to measure the financial impact of the deterrent, when people were aware of investigations taking place.

The Fraud Manager informed the committee that it was difficult to compare the work carried out in 2016/17 with previous years as the work had changed. It no longer investigated housing benefit cases. It would be possible next year to compare the 2017/18 data to that from 2016/17. With regard to comparisons with other local authorities, it was planned to provide data to CIPFA which would

carry out some benchmarking. He would circulate that information to the committee as it became available.

The Fraud Manager explained that blue badge investigations were either carried out proactively, with spot checks taking place at locations within the town, or as a response to an allegation. Allegations were considered and a proportionate response taken.

The Fraud Manager stated that the team consisted of him and three team members. It was a shared service with Three Rivers District Council. He said that members were welcome to come and meet the team.

RESOLVED –

that the contents of the report be noted.

6 **Shared Internal Audit Service - Progress Report against the 2017/18 Audit Plan**

The committee received a report from the Shared Internal Audit Service which provided information about the progress made by the Shared Internal Audit Service in delivering the annual audit plan. The Audit Manager highlighted elements of the report and added that the percentage of planned days had increased from 16% to 18%. He added that the audit related to IT had been deferred to a start date in July instead of beginning in May.

It was noted that there were a number of outstanding recommendations related to IT, some dating back to 2010/11. The Head of Finance (Shared Services) acknowledged that some recommendations went back several years. Some had been cleared last year following the changes to the ICT structure and contract. This year he had an objective to clear the outstanding recommendations further. Those recommendations that were still valid would be refreshed and be part of the recommendations in the new audit. This would enable internal audit to close down the older ones.

The Audit Manager advised that internal audit would be using a specialist IT auditor to carry out this review.

The Head of Finance (Shared Services) added that the new Head of Transformation was setting up an ICT strategy, which would be agreed by Cabinet. It would ensure IT was fit for the future. It linked to the digitisation agenda and Watford 2020.

Councillor Williams informed the committee that he was chair of Outsourced Services Scrutiny Panel. The scrutiny panel had looked at IT in January this year and had asked for a further update in December.

The Chair advised that he was concerned that Appendix C, which set out the actions against the recommendations, was getting longer. He had asked officers to ensure that those which were no longer relevant were removed.

RESOLVED –

1. that the Internal Audit Progress Report for the period to 9 June 2017 be noted.
2. that the amendments to the Audit Plan as at 9 June 2017 be noted.
3. that the implemented recommendations be removed.
4. that the changes to the implementation dates for 10 recommendations (paragraph 2.5 of the report) for the reasons set out in Appendix C of the report be agreed.

7 Annual Governance Statement - Action plan update

The committee received a report of the Head of Finance (Shared Services) which included the progress in implementing actions required from the Annual Governance Statement.

The Head of Finance (Shared Services) reported that there was a duty to bring forward any actions outstanding from the previous year. Both actions related to disaster recovery and it was hoped that they could be removed later in the year.

In response to a question, the Head of Finance (Shared Services) advised that he was not aware of when the last disaster recovery test had taken place. There had been power outages which the service had been able to recover from. Following the recent ransomware attacks, ICT had ensured that the firewalls were up to date. He would report back to the committee when the last disaster recovery test had been carried out.

The Chair asked that a report was presented to the committee providing an overview of the service and where it currently stood.

Councillor Williams said that as IT was due to report to Outsourced Services Scrutiny Panel in December, he asked whether it would be possible for the

report to Audit Committee be done in December. This would enable officers to do one report for both committees.

The Chair said that they would discuss the suggestion further.

The Head of Finance (Shared Services) assured the committee that IT was closely monitored by the Management Board at Three Rivers District Council and Leadership Team at Watford.

RESOLVED –

1. that the report be noted.
2. that a report on IT be presented at a future meeting in 2017/18.

8 Internal Audit Annual Report for 2016/17

The committee received reports from the Head of Finance (Shared Services) and Shared Internal Audit Service, which provided details of the internal auditor's work during 2016/17.

The Audit Manager highlighted sections of the report and internal audit's assurance opinion on the council's financial and non-financial systems. The Audit Charter was attached to the report and the committee was asked to approve it.

RESOLVED –

1. that the contents of the Annual Assurance Statement and the Internal Audit Annual Report be noted.
2. that the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP) be noted.
3. that the SIAS Audit Charter be accepted.
4. that the assurance from management that the scope and resources for internal audit were subject to no inappropriate limitations in 2016/17 be noted.

9 Annual Governance Statement 2016/17

The committee received a report of the Head of Finance (Shared Services) which included the draft Annual Governance Statement. The statement would be

included in the Statement of Accounts. An updated of the version of the report and its appendices had been circulated after the publication deadline.

The Head of Finance (Shared Services) informed the committee that the Annual Governance Statement had been compiled in conjunction with the Shared Internal Audit Service. This had enabled internal audit to give its opinion at the same time.

The Audit Manager added that the relevant framework published by CIPFA had been followed. Good practice indicated that following the statement's approval it should be published on the council's website. He assured the committee that there was no conflict of interest by internal audit compiling the document. The statement was approved by the Audit Committee and reviewed by the external auditor as part of their final accounts audit. The statement was reviewed by Finance as part of the preparation and sign-off of the draft statement of accounts.

RESOLVED –

1. that the Annual Governance Statement (AGS) attached as Appendix 1 to the updated report, the 2016/17 AGS Action Plan (Appendix 2) and the Local Code of Governance (Appendix 3) be approved.
2. that, subject to any changes required prior to their signing, the AGS be included in the Statement of Accounts for 2016/17.

10

Treasury Management Annual Report 2016/17

The committee received a report of Head of Finance (Shared Services) which provided that annual Treasury Management report and prudential indicators for 2016/17.

Andrew Brittain, external auditor from EY, explained that treasury management was audited by internal audit. The external auditor, based on a review of internal audit's work, assessed the work it wanted to carry out.

Following a comment about a reduction in the earmarked reserves, the Head of Finance (Shared Services) explained that this was referred to in the outturn report which was reported to Budget Panel and then Cabinet. Substantial reserves had been required to pay to the government for business rates readjustments. This would be recovered over time and put back into the reserves.

The Head of Finance (Shared Services) informed the committee that controls were in place and delegation agreed by Council. The Section 151 officer and Monitoring Officer ensured that any decisions and actions complied with the council's scheme of delegation.

Andrew Brittain added that the external auditor checked that the authority spent its reserves appropriately.

RESOLVED –

that the report be noted.

11 **External Audit Progress Report**

The committee received a report from the external auditor which provided an overview of the stage it had reached in the 2016/17 audit.

Andrew Brittain informed the committee that the final audit would commence in a few weeks' time and a report would then be presented in September. He advised that the regulations had changed for the 2017/18 accounts and he would work with officers to ensure they all met the new deadlines.

In response to a question about the council's pension liabilities, the Head of Finance (Shared Services) explained that the council contributed to the Hertfordshire Pension Scheme. The liability was for historic, those people currently retired, and future. Actuaries informed the council how much it needed to pay to the pension scheme each year.

Andrew Brittain advised that the pension fund was a separate account that was audited.

Following a question about the audit fee letter, Andrew Brittain said that the external auditor was required to communicate this to the committee. The figure was the same as for the previous year. The external auditor had to work in accordance with the code issued by the National Audit Office. They were limited in the other type of work they could carry out. The code ruled out work it could do for the client.

RESOLVED –

that the external auditor's Audit Progress Report 2016/17 be noted.

Draft Annual Statement of Accounts 2016/17

The committee received a report of the Head of Finance (Shared Services) which included the draft Statement of Accounts for 2016/17.

The Head of Finance (Shared Services) explained that previously the committee had been required to sign off the draft statement, but then this was changed so that only the Director of Finance needed to sign them. The statement would be reviewed over the next few months; changes would be made prior to the final version being presented to Audit Committee in September. Officers would keep track of any changes and report those to the committee in September. He asked councillors to contact him if they had any questions or comments about the statement. Prior to the start of the next meeting he would provide some training on the Statement of Accounts. Councillors were not required to audit the figures, as that was the role of the external auditor. The committee needed to be satisfied that the council had complied with the requirements.

The Head of Finance (Shared Services) informed the committee that next year the final accounts would need to be signed by the end of July.

RESOLVED –

1. that the committee contacts the Head of Finance (Shared Services) for clarification it needs concerning the draft statement of accounts for 2016/17.
2. that the committee confirms it is satisfied that the accounting policies adopted are the most appropriate.

Committee Work Programme

The committee received a report of the Head of Finance (shared services) setting out the Committee's proposed work programme for the remainder of the 2017/18 municipal year.

The Head of Finance (Shared Services) confirmed he would arrange some training on the statement of accounts, explaining the committee's role and changes from the draft version.

Councillor Williams noted that last year he had attended a very useful session at North Herts District Council. He asked whether this was being held again and if it was possible to attend.

The Audit Manager advised that it was in the process of being arranged by North Herts District Council in conjunction with CIPFA and SIAS. He would contact the council and find out about any sessions being planned and about the extension of invitations to other Audit Committees.

Councillor Khan mentioned that he had seen reference to some training from the external auditor.

Andrew Brittain advised that a discussion session had been set up about commercialisation and governance. It was a networking event for councils. Information had been circulated to all audit committees.

RESOLVED –

that the committee's comments about training be noted.

Chair

The Meeting started at 7.05 pm
and finished at 8.30 pm