

AUDIT COMMITTEE

29 SEPTEMBER 2011

Present: Councillor I Brown (Chair)
Councillors A Burtenshaw, A Khan, R Martins and S Rackett

Also present: Paul Dossett (Grant Thornton) and Richard Lawson (Grant Thornton)

Officers: Head of Strategic Finance
Head of Finance
Head of Legal and Property
Finance Manager
Acting Audit Manager
Committee and Scrutiny Officer

15 APOLOGIES FOR ABSENCE/COMMITTEE MEMBERSHIP

There were no apologies for absence.

16 DISCLOSURE OF INTERESTS (IF ANY)

There were no disclosures of interest.

17 MINUTES

The Committee and Scrutiny Officer confirmed that Councillor Wylie, Portfolio Holder for Finance and Shared Services had attended the previous meeting, but it had not been recorded on the minutes published on the Council's website. The Portfolio Holder had been included in the set presented for the Chair to sign.

The minutes of the meeting held on 30 June 2011 were submitted and signed.

18 OMBUDSMAN'S ANNUAL REVIEW

The Committee received a report of the Head of Legal and Property Services including a copy of the Ombudsman's Annual Review of its dealings with the Council for the financial year 2010/2011.

The Head of Legal and Property Services informed the Committee that further information about the Ombudsman's decisions was available on the Ombudsman's website, including the reasons for the decisions.

Following a Member's question about comparison with the previous year, the Head of Legal and Property Services advised that the review only referred to the number of enquiries received. It would be necessary to refer to the report

presented at last year's Committee if Members wanted to be able to compare results. She added that if the Ombudsman were to find maladministration by the Council then a report would need to be submitted to Council.

Following a request for clarification, the Head of Legal and Property Services informed the Committee that the reference to cases being submitted for reinvestigation related to those complaints which had been made direct to the Ombudsman without progressing through the Council's complaints procedure. The complainant was referred to the Council's internal system. If the complainant were still unsatisfied and wanted to continue to make a complaint this would then be investigated by the Ombudsman and was classified as a resubmission.

RESOLVED –

that the Annual Review be noted.

19

EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE, ISA 260

The Committee received a report of the Head of Strategic Finance incorporating the External Auditor's report to those charged with Governance (ISA260), the draft letter of Representation, the Statement of Accounts 2010/2011 and the Summary of Financial Outturn 2010/2011 which had been presented to Cabinet at its meeting on 26 September.

The Head of Strategic Finance apologised to the Committee that the documents had been late. He explained that the Finance Team had had to close three sets of accounts. There had been a significant amount of work to be carried out and the statement had had to be produced under International Financial Reporting Standards (IFRS). This was the first time it had been necessary to comply with the new statutory accounting framework. This also resulted in a considerable amount of work for the External Auditor; hence the delay.

Richard Lawson informed the Committee that they were able to provide an unqualified opinion for the financial statement and the Value for Money Conclusions. The report included details of areas that were being finalised. He referred the Committee to page 23 of Appendix 1 to the report and adjustments to the financial statement. The figures were below the materiality limits and it was for the Committee to take this into consideration when making its decision.

The Head of Strategic Finance explained the phrase 'materiality'; this referred to the size of any financial adjustment.

A Member stated that in order to be able to scrutinise the report, the Committee needed plenty of time to be able to evaluate the information. It was very difficult to do this in two days. The process needed to be more streamlined. The Member asked for further clarification about the reason the draft financial statement missed the original deadline. He was concerned there was a weakness in the process and the accounts needed to be agreed at this meeting.

Paul Dossett responded that the Council had issued the primary statement. A full set of working papers had not been supplied at the start, but this was not considered to be a major concern, but they should have been ready. Discussions had been held with officers regarding next year's process. It was acknowledged that the Shared Services team had produced three sets of accounts. Synchronisation of the process needed to be streamlined. It was necessary to engage with other services, including Revenues and Benefits. He added that by combining IFRS and Shared Services, it was likely that it would not be perfect the first time. A large amount of IFRS work carried out this year would not recur next year. He acknowledged that Members needed sufficient time to scrutinise the papers.

The Head of Strategic Finance informed the Committee that the full set of financial statements should ideally have been ready for 30 June. He had discussed the matter with the Director of Resources at Three Rivers District Council. The External Auditor had identified the issue of capacity pinch points and it was possible that some external resource might be required in order to meet the deadline. Officers did not want the same thing to happen again next year. This year had been a learning curve for the Shared Services staff. The Revenues and Benefits' systems were settling down. There had been three new members of staff recruited to the team, two of whom were from the private sector. The Head of Strategic Finance said that he would endeavour, with the Director of Resources at Three Rivers, to ensure that next year everything reached Grant Thornton by 30 June.

The Chair said that he was pleased the Councillor had highlighted this matter. He considered that generally Shared Services was a good process but there were practical issues.

The Finance Manager advised the Committee that the Finance team were closing the accounts on a new financial system. The full set of paperwork had been provided to the Auditor prior to the commencement of the Audit. The statement had been available on the Council's website prior to this date.

The Member asked for an explanation why the papers had not been provided in an electronic format as in 2009/10.

The Finance Manager responded that electronic papers had been supplied. In previous years working papers had been burned to disc and provided to the Auditors. She explained that usually the Auditors provided the Records Required Listing several weeks before the Audit. This year combining the two formats had been difficult. The problem had been more related to lack of co-ordination.

Richard Lawson added that previously the information had been presented on a disc as soon as they entered the Council. This year that was not the case and the information was produced as the audit proceeded.

The Head of Finance Shared Services commented that the format had not been as the auditor had wanted but the same standard had been achieved as in the previous financial year. The information was available electronically. He confirmed the information had been provided when requested and not as they entered the Council.

Paul Dossett stated that prior to Christmas 2011, a detailed list of all working papers required would be sent to the Council for the audit of the 2011/12 Accounts.

The Head of Strategic Finance said that the closing timetable had slipped by one month and he assured Members that this would not happen again.

Paul Dossett informed the Committee that the Finance team had responded with the required information as quickly as they could. The Auditors had, however, struggled with getting the information from Revenues and Benefits.

The Member commented that it appeared that Revenues and Benefits was delaying the process. He added that the service needed to be scrutinised.

Another Member said that he had noted Revenues and Benefits had been highlighted in the Internal Audit Annual Report and this service could be discussed more at that point of the meeting. The service's performance was scrutinised at Overview and Scrutiny Committee and had been noted as a concern. He agreed that a scrutiny Task Group could be set up to review the service. Members of the Committee could take part in the Task Group.

Paul Dossett informed the Committee that the next key piece of work was certification of the Housing Benefits Subsidy claim. He felt this might present a challenge. He would report back to Audit Committee on the progress.

Richard Lawson stated that recently he had audited the Business Rates closure of accounts which had taken longer than normal. The benefit claim audit would possibly be more problematic. This audit would commence on 6 October.

Following a question about misstatements, Richard Lawson explained that the statement had been received and formularised, but there were two matters which could not be completed and overall amounted to £320,000.

Paul Dossett added that if the amount was a large figure the accounts would be qualified. The issue had been raised at it was above triviality. The Committee needed to consider management's comments or whether it wanted the matter reviewed. If it were reviewed the deadline would be missed. He assured members the money had not gone astray.

The Finance Manager explained that the misstatements related to netting a debtor against a creditor.

The Head of Strategic Finance informed the Committee that the Council collected £63 million and the adjustment should be seen in that context.

A Member acknowledged the comments and was pleased that the accounts had not been qualified. He asked how the difficulties which had arisen on this occasion could be prevented from happening again. He asked whether it would be possible to have a report for a future meeting.

The Head of Strategic Finance said that with reference to Revenues and Benefits, the service was improving. He advised that Shared Services was the contractor and the Council was the client. The Council needed to ask for an explanation why the accounts were not perfect.

The Member said that one area of concern was Revenues and Benefits and the other was ICT.

The Head of Strategic Finance stated that he would ensure that a report was available at the next meeting covering all the outstanding issues relating to the Revenues and Benefits health check. He hoped that all issues would have been resolved by that meeting.

A Member commented that the figures needed to be correct. Although the percentage was not very high, it was a significant amount. He asked whether the IT risk highlighted in the report was the only risk in this service.

Paul Dossett explained that the risk highlighted was specific to the accounts. It was clear that there were other ICT issues. Richard Lawson confirmed it was not a full audit of ICT.

The Head of Strategic Finance referred the Committee to Appendix 2 of the report. He confirmed that the Chair of Audit Committee had signed the letter of representation with him, earlier that evening. The Finance Manager had a copy of the letter for Grant Thornton.

The Head of Strategic Finance then turned to Appendix 3 of the report, the Statement of Accounts 2010/11. The Annual Governance Statement had been signed by the Mayor and Managing Director. Section 13 of the document set out the significant governance issues which had been identified. The final Appendix, 4, was the report presented to Cabinet, which had also been considered at Budget Panel on 20 September.

Following a question from the Chair about the reduction in current assets, the Finance Manager replied that the General Fund had not reduced over the period. The Earmarked Reserves had increased slightly. The reduction was due to the Capital Programme which was funded by the use of Capital Receipts and this was why the figure had decreased. The offset was the variation between the debtors and creditors.

The Chair asked for an explanation about the reference to pension costs and what could be done to resolve this matter.

The Head of Strategic Finance said that this was a national problem. It was also occurring in the private sector. Under a previous Government (in the early 1980s) an option to take a pension fund holiday had been introduced. It was considered that 75% funding would be sufficient. Many local authorities had taken up this option. In addition Councils had allowed officers to retire at 50 with added years and this had put pressure on the pension fund. The Local Government Pension Scheme could invest in stocks and shares, government bonds and property and therefore the depressed state of the stock market impacted on the fund. Recently, there had been changes to the Local Government Pension Scheme; officers were required to contribute more and it was now linked to the Consumer Price Index and not the Retail Price Index. It was believed that this one change saved 1% per year. The deficit would close but it would be a long-term effort. If the Council wished, it could apply to the Secretary of State to use its Capital Receipts to close the deficit. Watford Borough Council was not able to do this as all receipts were committed.

A Member referred to the use of reserves as referred to in the officer's report and the report from the Auditor.

The Head of Strategic Finance said that the Medium Term Financial Strategy period referred to the use of £3 million of reserves over four years.

Following a further question about the level of reserves, the Head of Strategic Finance said that there was an ongoing debate between himself and Grant Thornton, whether there were too many different reserves. Some of the reserves had been set aside for specific projects, for example the replacement of the refuse vehicles. This specific reserve meant that the Council would hopefully have sufficient funds to buy new vehicles as they were required. The whole area of reserves would be reviewed by Budget Panel and Cabinet during discussions about next year's budget.

Paul Dossett commented that there had been discussions as to whether some of the money should be in the General Fund or earmarked reserves. He was aware that some local authorities had used their reserves and this left limited leeway to meet any future challenges. He said that from the Auditor's point of view if there was a sudden reduction in the amount of reserves, for example if they were halved, the Auditor would need to consider whether there were sufficient reserves remaining to meet any future needs.

Further to a Member's question whether the level of reserves was prudent or conservative, Paul Dossett explained that the General Fund Balance had reduced and he would not want to see it decrease further. The Earmarked Reserves were related to specific schemes and could only be used for those specific purposes. He was currently happy with the reserves.

The Head of Strategic Finance added that in his opinion the reserves were at a good level but needed to be used on a phased basis.

A Member commented that Councillors needed to take the officer's view which was backed by Grant Thornton. There was a prudent approach and the Committee needed to have confidence in its officers.

The Chair and the Head of Strategic Finance signed the Statement of Accounts.

RESOLVED –

1. that the external auditor's 'Report to those charged with Governance' be noted.
2. that the Committee's comments be noted.
3. that the Committee confirms that it is satisfied that the accounting policies adopted are the most appropriate.
4. that the Statement of Accounts be approved.

20 **STATEMENT OF ACCOUNTS 2010/11**

The Statement of Accounts was included as part of minute number 19 above.

21 **TREASURY MANAGEMENT QUARTERLY REPORT**

The Committee received a report of the Head of Strategic Finance setting out the second quarter's review of the Council's Treasury Management Strategy and investment performance. The Head of Strategic Finance circulated a further update of the Council's investment portfolio as at 23 September 2011.

Following a question from a Member about the difference in investments as shown in the two statements, the Head of Strategic Finance explained that the investments with Nat West and the Co-op Bank were related to the Council's day to day cash flow. At the end of the day the Council's current account should balance to zero as no interest was gained. The Council was able to draw these investments back as required and had reduced between the two weeks due to precept payments to the County Council and Hertfordshire Police Authority.

The Member asked about the risk related to Santander UK and whether it was backed by the Government's guarantee. This was a particular concern if Greece defaulted on its loan.

The Head of Strategic Finance advised that Santander Spain had avoided investing in Greece and the sub-prime market. The committee report included a statement from Sector about Santander UK. In Sector's opinion Lloyds and the Royal Bank of Scotland were felt to be protected by the Government and investments could be of up to 12 months maturity. All other financial institutions should have investments of no more than three months duration, a policy already adopted with Watford's portfolio. In the case of Santander UK, the current investment had only been set for one month. As a last resort, if a problem were

identified within the financial services sector then it would be possible to invest in the Debt Management Office where the rate of interest was only 0.25%.

Paul Dossett added that the Council had to take a balanced view. Grant Thornton was not concerned with the Council's approach; the investment was regularly reviewed.

Following a question about other investment options, Paul Dossett advised that local authorities could not invest in gold. It could only invest in banks and building societies or government bonds. The Head of Strategic Finance added that it was not possible to invest in stocks and shares.

RESOLVED –

that the report be noted.

22

INTERNAL AUDIT ANNUAL REPORT 2010/11

The Committee received a report of the Acting Audit Manager which introduced the Final Annual Report on the Internal Audit Service for 2010/2011. The Acting Audit Manager said that there were still concerns about Revenues and Benefits. There was an ongoing issue regarding the stability of ICT.

Councillor Rackett asked to add another recommendation and moved –

'2) to ask for Overview and Scrutiny Committee to consider setting up a Task Group to investigate the performance of Revenues and Benefits and consider recommendations for improvement should these issues still be outstanding at the next scrutiny committee.'

A Member commented that this was the role of the Three Rivers and Watford Shared Services Joint Committee.

Councillor Rackett said that under its scrutiny powers, Members were able to call-in any Shared Services' decision. He added that Three Rivers District Council may wish to be involved in the review. Overview and Scrutiny Committee had reviewed the services' performance but had not heard that the service was improving.

One Member commented that he was not convinced that a Task Group was the way forward. Councillor Rackett suggested that the idea was put forward and Overview and Scrutiny Committee could consider it.

A Member said that he believed scrutiny was required from an audit viewpoint. The backlog of assessments was due to be completed by December, although some Members were sceptical that this would be achieved.

The Head of Strategic Finance advised that Members needed to consider the terms of reference of the Joint Committee. The report before Audit Committee was related to finance. Councillor Rackett was referring to caseload. The

Council had the right to take a strategic overview of the service being delivered but should not get involved in operational issues.

The Committee and Scrutiny Officer explained that the scrutiny proposal form could be forwarded to Councillor Rackett for completion and then circulated to the other members of Audit Committee. Once the proposal was finalised it would be forwarded to the Head of Revenues and Benefits for comment prior to it being considered by Overview and Scrutiny Committee at its next meeting in November.

Following a question asking whether the Head of Revenues and Benefits had been invited to the meeting, the Head of Strategic Finance apologised that he had not invited him. The main focus of the meeting was the Statement of Accounts. He assured members that at the next meeting the Committee would review all the issues raised and the Head of Revenues and Benefits would be invited to attend.

RESOLVED –

1. that the contents of the final annual internal audit report for 2010/2011 be noted.
2. that the Overview and Scrutiny Committee be asked to consider setting up a Task Group to investigate the performance of Revenues and Benefits and consider recommendations for improvement should these issues still be outstanding at the next scrutiny committee.

23

INTERNAL AUDIT PROGRESS REPORT

The Committee received a report of the Acting Audit Manager which provided information on the work undertaken by Internal Audit in 2010/11 and the current financial year up to 2 September 2011.

A Member noted that IT and Revenues and Benefits had again been highlighted as having problems. He asked whether the creditor payment arrangement recommendations had been implemented.

The Acting Audit Manager confirmed that half of the recommendations had been implemented. The remainder should be commenced in October. The additional stage would be a prior authorisation stage, which would be signed off by the Finance Manager. It had not been introduced earlier as it would add an extra delay in payments being processed. The stages added immediately provided sufficient controls before a payment was released. The new stage was considered to be beneficial. The recommendations followed Government best practice.

RESOLVED –

that the contents of the report be noted.

IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

The Committee received a report of the Acting Audit Manager which highlighted any lack of progress in implementing Internal Audit recommendations.

Following a Member's question about the BACS payments being processed by IT, the Acting Audit Manager informed the Committee that this was the current process. Service areas generated the source files and IT then processed them and forwarded them to BACS.

The Head of Finance Shared Services explained that historically in Three Rivers the BACS payments had been processed by the individual services. The Systems Administrators were then transferred to IT and the BACS payments were transferred with the officers. Following the Internal Audit report the function was being transferred back to services. Officers were undergoing training and the relevant software was being put in place.

RESOLVED –

that the contents of the report be noted.

Chair

The Meeting started at 7.30 pm
and finished at 9.30 pm